



Marshalls

Delivering growth

Marshalls plc Annual Report and Accounts 2018

We are delivering growth

Our vision is to “Create Better Spaces” and “Futures for Everyone”, socially, environmentally and economically.

Our continuing mission is to deliver sustainable growth through a brand that drives customer specification of innovative product solutions for the Built Environment.

[Read more on pages 4 and 5](#)

“Our strategic goal is to be the UK’s leading manufacturer of products in the Built Environment.”

Martyn Coffey
Chief Executive



[Read more on pages 18 and 19](#)

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

Front cover: Scoutmoor Paving and Stanton Moor facades at Bloomberg HQ.

Inside front cover: Scoutmoor Paving at the National Memorial Arboretum.

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Howley park self-help capital investment
▶ Read more about our £3.5m investment in Howley park on page 10

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**Acquisition of Edenhall
Integration of CPM**
▶ Read more about this on page 11

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Delivering our digital strategy
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Investing in research and development
▶ Read more about investing in research and development on page 28

Continued progress has been made in the year to deliver our sustainable growth strategy

The self help programme to support organic growth is progressing well and we continue to outperform our peers and gain market share.



The acquisition of Edenhall and the successful integration of CPM will allow us to improve the level of our sustainable operating margins."

The Group's strategic objectives are firmly aligned with delivering sustainable shareholder value and the Group's longer-term strategy set out on pages 18 and 19.

Alternative performance measures are used consistently throughout the Annual Report and Accounts. These relate to like-for-like EBITA, EBITDA and ROCE. For further details of their purpose, definition and reconciliation to the equivalent statutory measures see Note 1 to the Financial Statements.

➤ [Our Strategy on pages 18 and 19](#)

➤ [Key Performance Indicators on pages 20 and 21](#)

Delivering our strategic growth objectives

- EBITDA growth continues alongside improved ROCE, strong cash flows and a strengthened brand
- Self help programme well advanced and delivering efficiency gains
- Organic capital investment continuing strongly
- Research and development expenditure continues to be increased
- Focus on innovation, new product development and service to drive sales growth
- Focus on increasing profitability of the emerging UK businesses continues
- Wide-ranging digital strategy gaining momentum and continuing to drive real benefits across the business
- Integrating CPM and Edenhall and continue to target selective bolt-on acquisitions
- Maintain a 2 times dividend cover policy



Financial highlights

- Revenue up 14% to £491.0 million (2017: £430.2 million)
- Profit before tax up 21% to £62.9 million (2017: £52.1 million)
- Return on capital employed ("ROCE") improved 110 basis points to 21.9% (2017: 20.8%) and on a like-for-like basis (excluding the acquisition of Edenhall) ROCE was 23.3% (2017: 24.8%)
- EPS up 22% to 26.29 pence (2017: 21.52 pence)
- Strong cash generation has continued with Group operating cash flow of 92% of EBITDA
- Net debt of £37.4 million (2017: £24.3 million) reflects cash outflow relating to the Edenhall acquisition of £16.4 million
- Final ordinary dividend increased by 18% to 8.00 pence (2017: 6.80 pence) per share
- Supplementary dividend of 4.00 pence per share reflecting better than expected year end debt levels
- Strong trading start to 2019 – sales up 16% including Edenhall (up 8% underlying) in first 2 months

Acquisition highlights

- Acquisition of Edenhall in December 2018
- Successful integration of CPM during 2018 and trading has been strong since acquisition

➤ Read more about our acquisitions on page 11

Revenue (£'m)

£491.0m

+14%

2018	491.0
2017	430.2
2016	396.9
2015	386.2
2014	358.5

Operating profit (£'m)

£64.8m

+21%

2018	64.8
2017	53.4
2016	47.6
2015	37.5
2014	25.3

EPS (p)

26.29p

+22%

2018	26.29
2017	21.52
2016	18.95
2015	14.32
2014	10.13

Profit before tax (£'m)

£62.9m

+21%

2018	62.9
2017	52.1
2016	46.0
2015	35.3
2014	22.4

Return on capital employed (%)

21.9%
up 110 basis points

2018	21.9
2017	20.8
2016	23.0
2015	19.0
2014	12.5

Final dividend recommended (p)

8.00p
+18%

2018	8.0	4.0
2017	6.8	4.0
2016	5.8	3.0
2015	4.75	2.0
2014	4.0	



The UK's leading hard landscaping manufacturer

Our objective is to create integrated landscapes which promote wellbeing to the benefit of everyone. So, whether it is through fairly traded stone, providing products which alleviate flood risks, enabling our business partners to share in our success or creating innovative street furniture that protects us from attack, we proudly strive to make our world a better place.

What we do

Marshalls is a complete external landscaping, interior design, paving and flooring products business – from planning and engineering, to guidance and delivery.

Responding to the wider market

Marshalls seeks to understand the long-term drivers of market and product growth. Through detailed market analysis, we continue to drive new product development, particularly in the areas of New Build Housing, Water Management, Street Furniture and Rail. Product development focuses on meeting consumer needs and increasing the speed and efficiency of product installation.

Our investment case

Growth agenda

Proven record of sustained growth with 5-year CAGR growth in revenue of 10 per cent and PBT of 37 per cent.

Revenue

£491.0m
+14%

➤ Read more about our strategy on pages 18 and 19

Strong market position

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

Operating profit margin

13.2%
+6%

➤ Read more about our markets on pages 12 and 13

Target acquisitions

The acquisitions of both CPM and Edenhall will enable the Group to offer a broader product choice that complements our offering in targeted growth areas of Water Management and New Build Housing.

CPM

Acquired 19 October 2017

Edenhall

Acquired 11 December 2018

➤ Read more about our acquisitions on page 11

Diversified group

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

Public Sector and Commercial (% of Group revenue)

66%

revenue growth of 20% in 2018

➤ Read more about how we are improving our digital offering on page 22

Strong asset base and resources

Well invested manufacturing plants with continuing emphasis on high quality maintenance, technology improvements and reinvestment. Capital investment of £29.2 million in 2018.

Self help capital investment in 2018

£17m

£30.7 million over the last 3 years

➤ Read more about self help capital investment in Howley Park on page 10

Sustainability

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

ROCE

23.3%

like-for-like basis

➤ Read more about how we operate as a sustainable business on pages 34 to 37



Innovation and new products

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

Number of new product ranges

67

launched in the current innovation cycle

> Read more about our investment in research and development on page 28

Culture

The Group's core values of leadership, excellence, trust and sustainability underpin our culture along with our key objective of doing business responsibly. The corporate culture is embedded into our engagement with stakeholders.

Health and safety

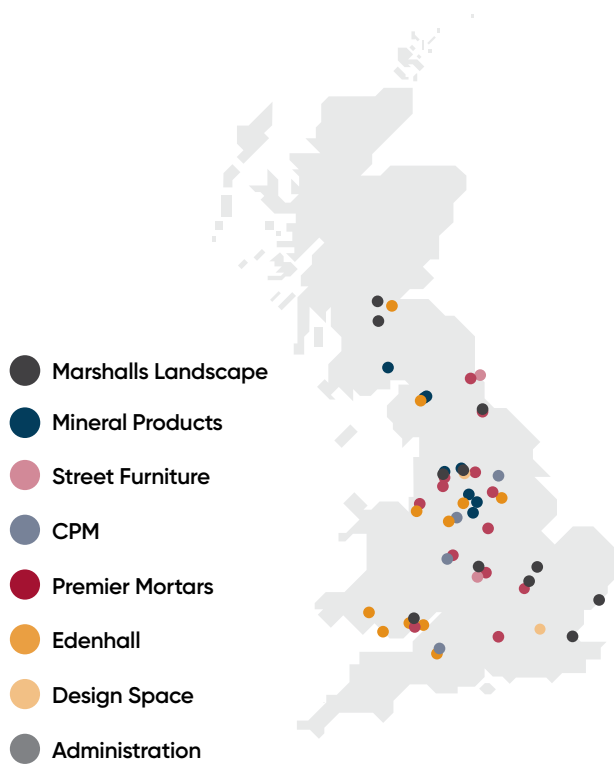
61%

reduction in working days lost since 2015 (%)

> Read more about our sustainability strategy on pages 34 to 37

Where we operate

Unique national network of manufacturing sites and quarries ensures proximity to customers and an efficient logistics footprint.



The Group continues to deliver our long-term sustainable growth strategy

Summary

- 2018 has been another year of good profit growth
- Core values remain as leadership, excellence, trust and sustainability
- 22% increase in earnings per share reflecting continuing strength of the Marshalls brand
- Strong balance sheet and prudent capital structure
- Full year dividend of 12.00 pence (up 18%) and a discretionary supplementary dividend of 4.00 pence



Our culture is built on strong values and a commitment to doing business responsibly. This is embodied in "The Marshalls Way", incorporating our core values of leadership, excellence, trust and sustainability."

Overview

This is my first report to you as your Chair and I am delighted to announce another year of growth, with both strong earnings and cash performance. We are continuing to invest in the business, in addition to proposing an increased ordinary dividend and a further supplementary dividend. The acquisition of Edenhall Holdings Limited ("Edenhall") in December 2018 will support the Group's focus on New Build Housing, which is one of our strategic growth areas.

Results

Group revenue for the year increased by 14 per cent to £491.0 million (2017: £430.2 million). The Public Sector and Commercial end market performance was up 20 per cent during the year and growth in the Domestic end market was up 3 per cent.

Profit before tax increased by 21 per cent to £62.9 million (2017: £52.1 million). EBITDA has grown by 19 per cent to £80.8 million and the Group's earnings per share, at 26.29 pence, is up 22 per cent.

Net debt at 31 December 2018 was £37.4 million (2017: £24.3 million), after funding the acquisition of Edenhall for £16.4 million.

Dividends

The Board is recommending a final dividend of 8.00 pence per share (2017: 6.80 pence per share) which, together with the interim dividend of 4.00 pence per share (2017: 3.40 pence per share), makes a total ordinary dividend of 12.00 pence per share (2017: 10.20 pence per share), an increase of 18 per cent for the year.

The Board is also recommending a supplementary dividend of 4.00 pence per share for 2018 (2017: 4.00 pence per share). The payment of a discretionary supplementary dividend is in line with the Board's objective of maintaining an efficient capital structure whilst retaining capacity to invest in further growth opportunities. The Group's cash flows remain strong and permit us to recommend and maintain a supplementary dividend of 4.00 pence. The level of supplementary dividend this year reflects a better than expected year end debt position and this year provides increased total returns for shareholders whilst recognising the increased political and economic uncertainties caused by the prolonged Brexit negotiations. The Board will continue to adhere to the Group's capital allocation policy and the Group's policy of rewarding shareholders on the basis of maintaining a 2 times dividend cover. This is explained in more detail on page 32.



Strategy

The 2020 Strategy has delivered strong profit growth and has been firmly aligned with the Group's vision to "Create Better Spaces" for all our customers, socially, environmentally and economically. We have a strategic goal to become the UK's leading manufacturer of product in the Built Environment. The Group is now well advanced in mapping out its ambitions for the next 5 years, setting strategic objectives that continue to support long-term sustainable growth while also building further resilience. The Board's priorities for 2019 include the launch of the Group's strategy for the next 5 years. This will set out the Group's strategic priorities for the medium term and how these will deliver value for our stakeholders.

Strong corporate culture

Marshalls is committed to an open and transparent culture that fosters excellence. The Board recognises its responsibility to provide strong leadership in the promotion of corporate culture and this has continued to be a focus over the past 12 months, as we develop better ways of engaging with our employees and other stakeholders. Our long-standing commitment to high ethical standards, minimising adverse environmental and social impact, while delivering great service for our customers, provides a strong foundation on which we can build to improve. Doing business the right way is extremely important to Marshalls as we seek to ensure we balance the interests of all our stakeholders and make a full and proper contribution to society.

"The Marshalls Way" captures the elements and values that support the Group's culture of doing business responsibly. I have no doubt that having a clear and consistent culture that all our employees live by, and that is visible to all our stakeholders, is key to the development of our brand. During the past year, we have worked on exploring how to promote and communicate our values throughout the business, as well as with our shareholders, business partners, employees and other stakeholders. Your Board is committed to working alongside employee focus groups over the next year to further develop and fully articulate "The Marshalls Way" to reflect the Group's culture in a way that is understood by all. It is underpinned by the Group's core values of leadership, excellence, trust and sustainability and the reward structures across the business are being aligned with our cultural vision. The Board's priorities for 2019 include further focus on the development of Marshalls' corporate culture and I talk more about this on pages 38 and 39 and in my introduction to the Corporate Governance Statement on page 42.

Highest standards of governance

The Board remains committed to the highest standards of corporate governance and to operating in accordance with strong ethical and corporate social responsibility principles. Our ethical principles transcend all parts of the business and are a key element of the Marshalls brand. In reviewing governance in 2018, while continuing to comply with the provisions of the UK Corporate Governance Code published in April 2016, as outlined in our Corporate Governance Statement on pages 42 to 47, we also acknowledge the development of governance standards set out in the new version of the Code published in July 2018. We have reviewed our own compliance against the 2018 Code and have already implemented some changes to ensure that we are able to report positively on compliance in 2019; we also comment on this in the Corporate Governance Statement. Having a Board

that is well balanced and diverse in the widest sense remains key to the delivery of strong governance standards. There is a formal and transparent succession plan in place, and there will be resolutions proposed at the 2019 Annual General Meeting to update the Articles as well as in relation to the election and re-election of Directors that are designed to support the effectiveness of the Board while allowing membership to be regularly refreshed.

We continue to improve the Annual Report disclosures to ensure they give a fair, balanced and understandable assessment of the Group's position and prospects. On pages 16 and 17 we set out more detailed information about all our key stakeholder groups, explaining how we engage and strive to develop collaborative relationships. In compliance with s172 Companies Act 2006, the Board plans to undertake its own stakeholder mapping process and review stakeholder engagement on an annual basis. The ongoing aim is to consider whether there are any ways in which this can be more effective.

During 2018, we carried out an internal evaluation of Board performance and effectiveness, applying the principles of the 2016 Code while also taking into account the 2018 Code. No areas of material concern were highlighted. We will commission an external Board evaluation in 2019.

People

It is very evident to me that our employees are a major strength of Marshalls. There is a real drive to deliver our core values amongst the workforce and to grow the business and I would like to thank all our employees for their commitment and contribution during the last year. It is a real strength that so many employees are now able to participate in the Company's success through Sharesave and share purchase plans.

Outlook

The Group delivered a strong result in 2018 and continues to outperform the Construction Products Association's ("CPA") growth figures, despite ongoing macro-economic and Brexit uncertainty. The CPA's recent Winter Forecast predicted a decrease in UK market volumes of 0.2 per cent in 2018, followed by an increase of 0.3 per cent in 2019. However, our recent trading has been strong and the underlying indicators in the New Build Housing, Road, Rail and Water Management markets remain supportive to our growth strategy and plans.

Good progress has been made during the year, notably the successful integration of CPM and the ongoing self help programme to drive organic growth and these have been enhanced by the acquisition of Edenhall. The Group's focus remains the delivery of long-term sustainable growth, whilst maintaining a strong balance sheet and a flexible capital structure.

Vanda Murray OBE Chair



Delivering growth

Summary

- Profit before tax up 21% to £62.9 million
- Acquisition of Edenhall in December 2018
- The integration of CPM is now complete
- The Group's positive cash generation has continued
- Continued commitment to our self help capital investment programme and new product development
- Acceleration of the digital strategy development

Introduction

The Group's proven strategy has continued to deliver strong profit growth in 2018. The self help programme to support organic growth is progressing well, with continued focus on New Build Housing, Road, Rail and Water Management, where higher levels of growth are anticipated. Sales and order intake have remained strong in the first couple of months of 2019 and were up 16 per cent against the prior year comparative (8 per cent up excluding the impact of Edenhall).

The Group has delivered an operating profit in 2018 of £64.8 million (2017: £53.4 million), an increase of 21 per cent. This result is also after charging £1.2 million of operational restructuring costs (2017: £1.2 million) and £0.4 million of acquisition costs (2017: £0.8 million).

Edenhall Holdings Limited ("Edenhall") was acquired on 11 December 2018. Edenhall is a leading UK manufacturer and supplier of sustainable concrete products and the acquisition is in line with our stated strategy to complement our organic growth with targeted acquisitions. CPM is now fully integrated into Marshalls' IT and financial systems. CPM has traded strongly during 2018, surpassing expectations, and the business' integration into the Marshalls Group is now complete.

Marshalls is a Superbrand with a significant market position. Our strong investment case is covered in more detail on pages 4 and 5. Marshalls remains a benchmark for excellence and the 3 cornerstone themes of customer service, quality and sustainability continue to put the customer at the very heart of our business model and investment proposition.

2018 trading summary

Group revenue for the year ended 31 December 2018 was up 14 per cent at £491.0 million (2017: £430.2 million). This was a very positive result given the first 4 months of the year were affected by severe weather conditions. Revenue growth in the second half of the year was particularly strong at 17 per cent.

Sales in the Domestic end market, which represented approximately 29 per cent of Group sales, continue to outperform CPA forecasts and were up 3 per cent compared with the prior year. Whilst the first half of the year was particularly affected by the severe weather, revenue growth in the second half of the year was up 7 per cent against the prior period. The survey of domestic installers at the end of February 2019 revealed order books of 10.0 weeks (2018: 10.8 weeks) which compared with 10.8 weeks at the end of October 2018.

Sales in the Public Sector and Commercial end market, which represented approximately 66 per cent of Group sales, were up 20 per cent compared with 2017. This included a full year contribution from CPM.

The core Commercial and Domestic businesses continue to deliver benefits from operational efficiency improvements. The strong performance of our Landscape Protection business in the second half of the year and the growth in the sustainable profitability of our emerging UK businesses remain key parts of the Group's strategy. The growth of protective security street furniture continues with strong focus on new product development and new target markets.

International revenue grew by 4 per cent during 2018 and represents approximately 5 per cent of Group sales. Marshalls has made continued progress in developing the International business and its trading performance has improved in line with revenue growth.

Profit before tax increased by 21 per cent to £62.9 million (2017: £52.1 million) and EBITDA increased by 19 per cent to £80.8 million (2017: £67.9 million). Basic EPS was 26.29 pence (2017: 21.52 pence), an increase of 22 per cent.



We are developing our strategic objectives to be sustainable over the longer term."



Capital discipline remains a key priority for the Board and the Group's strong cash generation has continued in the year. Operating cash flow was 92 per cent of EBITDA. Net debt at 31 December 2018 of £37.4 million (2017: £24.3 million) was better than expected, even after the total cash outflow of £16.4 million in connection with the acquisition of Edenhall.

Acquisition of Edenhall

The acquisition of Edenhall is in line with our stated Group strategy of expanding into adjacent building products related to New Build Housing. This is a strategic focus for Marshalls. Edenhall is a concrete brick manufacturer capable of providing a spectrum of colours, shades and textures to meet any specification requirements for facing bricks and specials. The acquisition will enable us to offer customers a broader product choice. The combination of Marshalls and Edenhall will build our specification ability for both brands and will also create leverage for our existing business in Mortars and Screeds. Trading since completion has been strong and integration is on track with our expectations.

Current priorities and operational strategy

The Group's 2020 Strategy has been successful and the results in 2018 demonstrate this. Our long-term strategy remains to grow the business, deliver increasing operating margins in all businesses and improve return on capital employed ("ROCE"). We are mindful of increased political and economic uncertainties and a conservative approach is being taken to the development of our strategic objectives over the longer term. We are currently developing our strategic plan for sustainable growth over the next 5 years and this will become the Group's 2023 Strategy.

During 2018, the ongoing development of the self help capital investment programme has been complemented by the acquisition of Edenhall and the successful integration of CPM.

ROCE, defined as EBITA / shareholders' funds plus net debt, was 23.3 per cent for the year ended 31 December 2018 (2017: 24.8 per cent). This ROCE calculation excludes the impact of Edenhall and is therefore on a like-for-like basis.

Capital expenditure was £29.2 million in the year ended 31 December 2018, which included £17.0 million of additional, planned, self help investment. We continue to identify a good pipeline of capital investment projects that will drive future organic growth. In addition, increases in research and new product development expenditure continue to be made as part of our growth strategy.

We continue to explore bolt-on acquisitions within our targeted growth sectors of New Build Housing, Water Management, Landscape Protection and Minerals. Our approach remains focused and any proposed acquisition target will be carefully assessed against strict investment criteria and will be thoroughly investigated during the detailed due diligence phase.

Marshalls' digital strategy remains a key priority and continued investment is being directed to enhancing the Group's digital capability. The aim is to provide our customers with world-class experiences and the digital objective is to ensure they receive the right data, at the right time, in the right format. During 2018, we have established a new platform for our Commercial end market customers which runs a state-of-the-art digital infrastructure that provides greater ability and a blueprint for future systems architecture. We are planning to release a new platform for our Domestic end market customers in 2019. Our web and mobile applications enable customers to model their requirements and allow full digital access. The digital strategy is underpinned by continuous improvement driven by data analysis and customer insight. We are integrating artificial intelligence in key transactional systems and, during 2019, we aim to create an artificial intelligence infrastructure upon which other business initiatives will be able to leverage.

The Group's strategic initiatives are set out in detail in the Strategic Report on pages 2 to 37.

Innovation and new product development

In the core Landscape Products business, the growth in revenue from new products continued strongly and new product sales represented 12 per cent of total revenue in 2018. The objective is to deliver innovative market leading new products that are aligned with customer needs across all business areas. The development pipeline continues to be strong and the Group is committed to providing high performance product solutions. Further details have been included on page 28 including a case study relating to our new Surface Performance Technology paving products. This new technology is generating increased sales, specifically in New Build Housing, which is one of our targeted growth areas.

Improvements in operational efficiency

The self help capital investment programme is continuing to improve operational and manufacturing efficiency. By way of example, we are now seeing significant efficiency benefits following the £3 million investment in a modern sawmill and production facility at Natural Stone Paving in 2017. The more recent new £3.5 million static crushing plant at Howley Park is described in more detail in the case study on page 10. This plant is capable of crushing 7 different products at one time and will both reduce operating costs and improve efficiency. In addition, the Group's in-house logistics fleet provides a competitive advantage and the vehicles have industry leading safety technology. With around 375,000 deliveries made each year, this remains part of the Group's operations where there are still further opportunities for improvement.

Health and safety

Marshalls is committed to safeguarding the health and safety of every employee and all stakeholders who may be affected by our undertakings. Maintaining the highest standards of health and safety remains a cornerstone of the Group's culture and we are committed to the continual improvement in health and safety performance. The achievement of annual health and safety improvement targets is directly linked to the remuneration of the Executive Directors and senior management.

During 2018, there was a 14 per cent reduction in lost time workplace incidents. There was also a 46 per cent reduction in working days lost over a 3-year period, which is comfortably ahead of the Group's headline target. In addition, during the year, the Group successfully gained ISO 45001 accreditation across the UK businesses, being the first company in the building products industry to achieve this standard.

Marshalls has also introduced a Mental Health Awareness Strategy, and this has included the training of key individuals in the business to become Mental Health First Aiders to support our employees. We continue to promote a culture in which all managers visibly demonstrate health and safety leadership.

Responsible business

In 2018 the total amount of community support, including charitable donations raised by employees, amounted to £267,000. The total raised for MIND, the Group's chosen national charity has been over £200,000 over the last 2 years. This includes amounts raised by employees, supported by the Company's contribution.

Marshalls continues to share its success by encouraging employee share ownership. The Group's all-employee 2015 Sharesave scheme matured in 2018 and 684 employees have either exercised, or are still able to exercise, their options and achieve a 50 per cent return over 3 years.

Martyn Coffey
Chief Executive



Self help capital investment

Self help investment

Self help capital expenditure is additional to ongoing replacement spend. It must be "value added", targeting volume growth areas and cost reduction and efficiency opportunities. The investment objective is to achieve a payback in less than 3 years and a healthy IRR. Self help capital expenditure was £17.0 million in 2018 and has been £30.7 million over the last 3 years. The £3.5 million investment in a static crushing plant at Howley Park and the £3 million investment in saws and automation in a new production facility at Brookfoot are 2 examples of significant capital expenditure projects.

Total 2018 capital expenditure

£29.2m

(self help = £17.0m)

Total capital expenditure over the last 3 years

£63.8m

(self help = £30.7m)

Howley Park quarry static crushing investment

- Site capital investment of £3.5 million
- Static crushing plant capable of crushing 7 different products at any one time
- Comprises of:
 - Tip hopper loaded directly from 45 tonne capacity dumpers
 - Jaw crusher
 - Cone crusher
 - 3 screening stations each with 2 decks
- Increase in capacity of 75 per cent
- Reduction in operating costs of 24 per cent
- Quarry reserves of over 50 years



➤ Read more on the strategy on pages 18 and 19

➤ www.marshalls.co.uk/commercial

Acquisitions

Integration of CPM

Acquired in October 2017, CPM is now fully integrated into Marshalls Landscape Products and has been performing ahead of expectations.

Key strengths

- Comprehensive range of technical and innovative water management solutions;
- Growing business with a strong track record of quality and service; and
- The provision of bespoke "off-site" solutions.

Opportunities

- We can now offer a broader product choice that complements Marshalls' existing water management offering. CPM now extends the Group's range to include below ground drainage products; and
- The acquisition of CPM will enable Marshalls to deliver a fuller system-based water management proposition.



Acquisition of Edenhall

Edenhall is a concrete brick manufacturer capable of producing a spectrum of colours, shades and textures to meet any specification requirements for facing bricks and specials.

The acquisition will enable us to offer customers a broader product choice in line with our stated strategy of expanding into adjacent building products related to New Build Housing.

Key strengths

- Edenhall is a profitable business with a strong track record of quality, reliability and service; and
- The business offers facing brick colours in all shades from white to blue and in a wide variety of textures from smooth to sand-faced and weathered finishes.

Opportunities

- Marshalls has a strong presence in the New Build Housing Sector, and Edenhall will fit in with our existing customer frameworks and agreements;
- The combined offer will build the specification ability for both brands; and
- We can leverage our existing business in Mortars and Screeds as Edenhall also sell directly into this sector.



The joining of the two companies will add real value to our customers and accelerate the growth of Edenhall."

Andrew Cotton

Managing Director of Edenhall Holdings Limited

[➤ Read more on the strategy on pages 18 and 19](#)



Growth Markets

Public Sector and Commercial

According to the CPA, construction output is forecast to remain broadly flat (+0.3 per cent) in 2019 before growth of 1.6 per cent in 2020. However, this masks a considerable variation by sector, with growth in private housing, industrial warehouses and many parts of infrastructure offsetting falls in education, health and commercial activity.

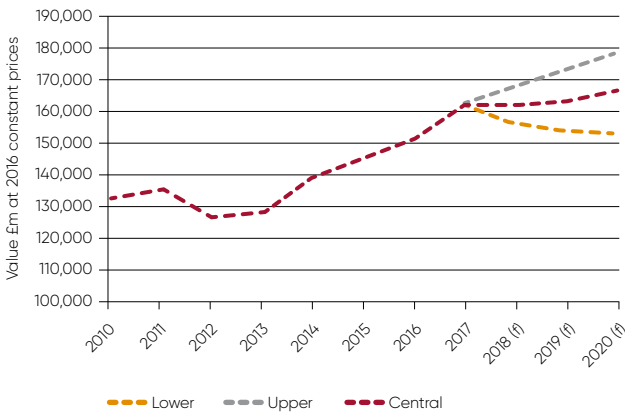
- Construction output has remained robust in 2018 in spite of political uncertainty over Brexit.
- The CPA forecasts that private housing starts will rise 2.0 per cent in 2019 and 1.0 per cent in 2020, as Help to Buy sustains growth outside London.
- The CPA forecasts that infrastructure work will rise by 8.8 per cent in 2019 and 7.7 per cent in 2020.

Forecasts for the roads sub-sector show modest growth over the next 2 years, with activity split between smart motorways and traditional road construction. The CPA forecasts that output in the roads sub-sector will increase by 3.0 per cent in 2019 and 5.0 per cent in 2020. Rail construction output is forecast to increase by 10.0 per cent in 2019, driven by ongoing projects in London and the South East and the completion of the Crossrail project. Looking further ahead, the HS2 rail project will be a key driver.

Total Construction output

CPA 2019 £163bn ↗ £495m

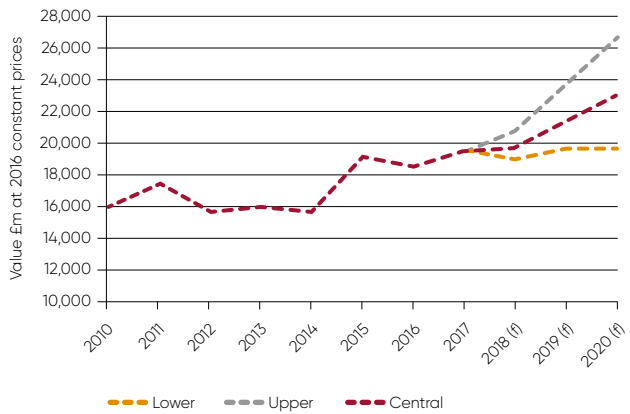
CPA total construction output
Chain linked volume – 2016 prices



Infrastructure

CPA 2019 £21.5bn ↗ £1.7bn

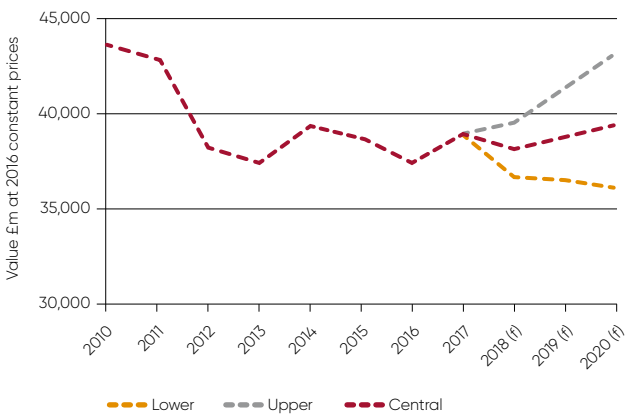
CPA infrastructure
Chain linked volume – 2016 prices



Total Public inc. PFI output

CPA 2019 £37.8bn ↗ £513m

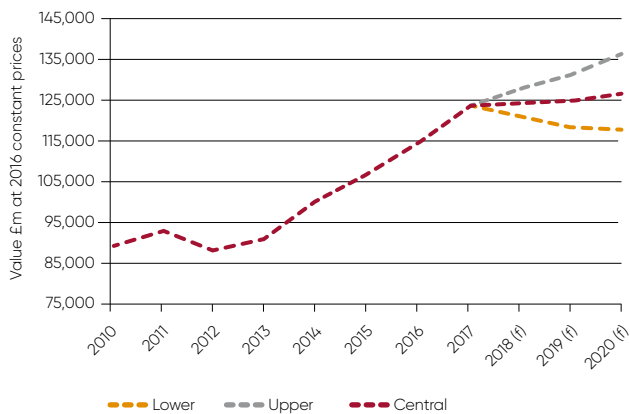
CPA Public in PFI total
Chain linked volume – 2016 prices



Total Private output

CPA 2019 £125.1bn ↘ £19m

CPA Private total
Chain linked volume – 2016 prices



Response to market challenges – our strategic priorities

- Drive specification and sales for the Group's new product ranges, e.g. Modal Paving and Urbex textured paving.
- Gain further leverage from our digital strategy which is focused on the customer experience.
- Maintain focus on the significant growth opportunities in the Greater London area – but also on further developing our strategic relationships with contractors, housebuilders and merchants across the UK.



The consumer driveway and patio market

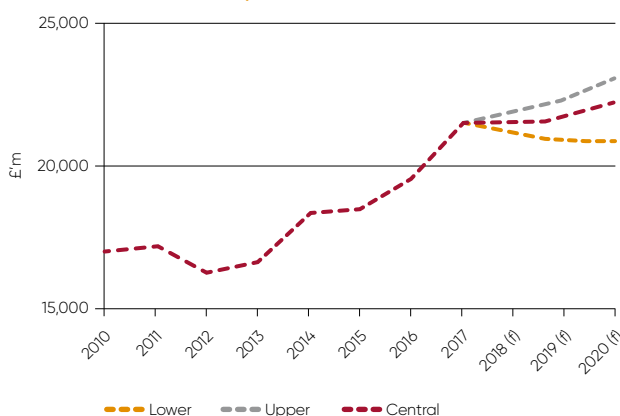
The prospects for private housing repair, maintenance and improvement activity in the near term are likely to be driven by home improvements spending by demographic groups with pension and housing wealth.

Private housing market background

There has been a slowdown recently in the general housing market, which is expected to deteriorate further until Brexit uncertainty reduces. Although mortgage applications and property transactions have fallen, house prices have continued to rise in most regions, as supply has adjusted accordingly. Latent demand remains strong and the Government's focus continues to be to increase net supply to 300,000 homes per year by the mid-2020s. Private housing repair, maintenance and improvement expenditure is driven by housing wealth, pension wealth and household savings which are the main sources of finance and continue to be robust in the over-55s age category, which is a key demographic for Marshalls.

CPA Private housing RM&I

Chain linked volume - 2016 prices



Source: Moneysupermarket and Government Statistics.

The move or improve question

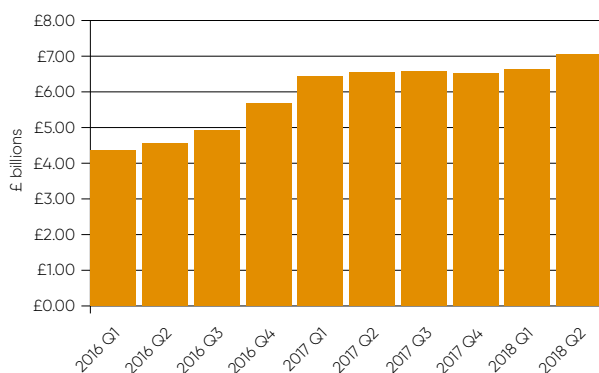
- 21 per cent of households (3 million) are considering moving to a new house.
- 1.2 million (40 per cent) actually moved in last 12 months.
- 1.85 million (13 per cent) are considering extending.
- Collectively 37 per cent believe outdoor improvements will add the most value.
- On average UK homeowners believe an extension of any type will add around 20 per cent to the value of a house.

Pension withdrawals

7.8% to £7bn in 12 months to 2018 Q2

882,000 individuals = £8,000 each

MAT value of flexible payments from pensions



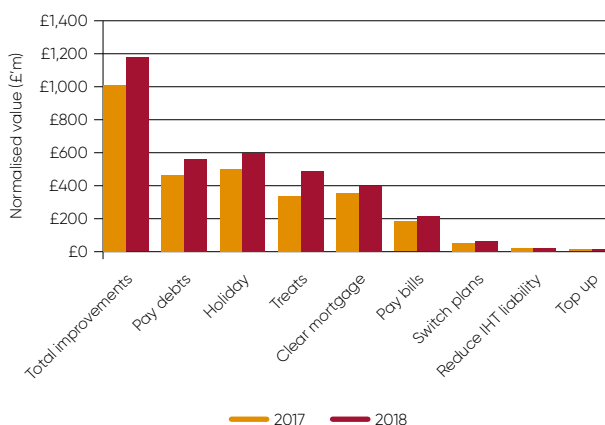
Equity release

20% to £3.6bn in total during 2018

64% planning to spend on Home and Garden

Equity release over 55s

(Lifetime mortgage values - weighted)



Response to market challenges – our strategic priorities

- Continue to develop the proposition through our approved domestic installers, leveraging the digital technology advances to enhance the customer experience.
- Maintain strong relationships at all levels with our national merchant customers.
- Focus on the increasing distribution of our brands across the Independent customer base.
- Launch our new Domestic website in 2019, which builds on the investment already made on the Group's new digital platform.



How we do business

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

Our capital Our business

Financial

We have a strong balance sheet and a conservative capital structure. An efficient portfolio of bank facilities, with extended maturities, provides prudent headroom. We target a net debt to EBITDA ratio of 0 – 1 times over the business cycle.

Business

We have national coverage and sustainable operations across a national network of manufacturing sites. We have long-standing relationships with customers and suppliers and a diverse product range covering a number of end markets.

Intellectual

We have a reputation built on transparency and long-standing core values. Marshalls is a Superbrand underpinned by efficient, well-invested plants with high skills and expertise. We focus on innovation and strong R&D and NPD.

Natural resources

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

Human

The Group has an experienced workforce of 2,790 employees with specialist skills and a high level of engagement.

Technology

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

Social and relationships

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



Sourcing

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

Related risks

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

Manufacturing

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

Related risks

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

What makes us different?

Sustainability

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

Innovation

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

Customer service

- World-class Manufacturing, Innovation and Development team
- Skilled engineers and technicians
- Broad range of products

Quality

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

Our core values:

Leadership



- Looking ahead and setting the direction for others to follow
- Taking responsibility for our actions
- Taking collective responsibility for making things happen
- Being role models and acting with integrity at all times

Excellence



- Being ambitious and challenging complacency
- Making good on our commitments
- Being experts in what we do
- Seeking continual improvement and demanding high performance



Strategic objectives:

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

Outcomes



Distribution

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

Related risks

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

Customers

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

Related risks

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

Capital structure

- Strong and flexible capital structure
- Clear capital allocation policy

➤ **Priorities for capital** on page 32

Dynamic business model

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

Shareholders

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

Dividend per share

16.00p

Customers

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

Customer service index

98%

Employees

Promotion of professional development, career opportunities and competitive benefit packages

Apprenticeships in 2018

70

Suppliers

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

Suppliers trained on anti-bribery and modern slavery

70%

Communities and environment

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

Charitable and community donations

£267k

Government and regulatory bodies

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

R&D expenditure

£4.9m

Trust

- Following through on our promises
- Doing what we say we will do
- Honest and acting with integrity
- Treating our colleagues and customers fairly

Sustainability

- Being transparent and doing the right thing
- Taking the long-term view when making decisions
- Anticipating and adapting to change
- Considering people, the planet and our contribution to society

➤ **Stakeholder Engagement** on pages 16 and 17

➤ **Growth Markets** on pages 12 and 13

➤ **Our Strategy** on pages 18 and 19

➤ **Key Performance Indicators** on pages 20 and 21

➤ **Risk Management and Principal Risks** on pages 23 to 27



Strong relationships across all stakeholder groups

Strategic objectives:

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

Shareholders

Link to strategy     

- We generate value for shareholders by delivering sustainable growth
- We maintain a progressive dividend policy – targeting 2 times dividend cover over the business cycle
- We aim to articulate a clear corporate strategy to shareholders in a way that is easy to understand
- We seek to give a consistent message and style across all communication channels
- We emphasise personal contact and individual dialogue – with a significant time for shareholder meetings
- We work with PR consultants (MHP Communications) to provide ongoing communication support

Why we engage

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

How we engage

- AGM, Annual Report, Trading Updates and presentations
- Regular phone calls, face to face meetings, site visits and investor roadshows
- Investor Centre on the website – which has been redesigned and upgraded in recent years

Customers

Link to strategy     

- We seek to exceed the expectation of customers in all markets
- We target very high levels of customer service
- We build customer service and health and safety performance into management and employee reward schemes

Why we engage

- To ensure customers remain at the centre of our business model
- To maintain very high quality, availability and delivery metrics
- To be able to provide new and innovative products and integrated solutions
- To develop customer-focused solutions that can be effectively and efficiently installed

How we engage

- Dedicated “customer experience” team – with strategic engagement objectives
- Service-level agreements and quality standards
- A customer service resource structure – with technical advisory in-field resource
- New websites and digital solutions focused on the customer
- Customer surveys, customer visits and a commitment to deliver on feedback
- Continuing investment in systems improvement

Employees

Link to strategy    

- We have 2,790 staff in the Group across all locations
- We have highly experienced and motivated employees
- We are a “Living Wage” employer with pay positioned at the top end for the industry
- We develop and reward our employees both financially and through professional development
- We encourage share ownership with around one-third of employees owning shares
- We place a high priority on employee engagement, training and development

Why we engage

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

How we engage

- Communication through intranet, workplace meetings and staff surveys
- Annual Director “communication roadshow” programme of site visits, staff presentations and workplace dialogue
- Focus on development training and succession planning
- Competitive salaries – rewarding excellence
- Focus on new apprenticeships

Our core values:

Leadership 

Excellence 



Responding to stakeholders

Our approach is to engage in personal dialogue across all major stakeholder groups. Our investor and shareholder communication is focused around personal contact, individual dialogue, regular presentations and site visits and ensures that our investor relations programme clearly articulates the strategic priorities of the business. We aim to build collaborative relationships with employees, customers and suppliers – being open to change and responding to feedback.

Suppliers

Link to strategy     

- We have a global supply chain and maintain long-term partnerships
- We have a reliable and robust material supply that enables manufacturing flexibility
- We are leading members of the Ethical Trading Initiative ("ETI")
- We continue to focus on the issue of modern slavery and improve compliance procedures
- We maintain our "Hope for Justice" strategic partnership
- We have developed and deployed to all suppliers the "MWay" Supplier Code of Conduct

Why we engage

- To ensure use of the best quality raw materials and resources we can source
- To develop strong relationships with our suppliers to ensure they can support new product development
- To ensure that our materials are ethically sourced
- To ensure our human rights due diligence is robust, monitored and extremely dynamic

How we engage

- Effective, regular communication – underpinned by Code of Conduct
- Formal tender processes and fair terms
- Strong focus on supply chain relationships, compliance and risk – regular supply chain audits
- Active supply chain risk mapping processes
- ETI Base Code social and ethical audits in India, China and Vietnam

Communities and environment

Link to strategy    

- We ensure the Group maintains strong ethical and corporate responsibility principles
- We value our brand and a reputation built on transparency and proven sustainability expertise
- We ensure that doing business responsibly is a core part of the Group's culture
- We have strong environmental objectives and targets – driven by our strategic commitment to sustainability
- We are strongly committed to human rights

Why we engage

- Communities are an important end user of our products with shared values
- To recognise the role of our business in wider society
- To ensure that our strategic operations address economic, social and environmental aspects
- To maintain adherence to all legislative and ISO requirements for environmental and energy management

How we engage

- Sustainable business plans with appropriate and relevant KPIs
- Continue to support the UN Global Compact's commitment to sustainable development
- Focus on energy monitoring systems and rainwater capture
- Regular dialogue and support for local community groups around all our sites
- £267,000 raised for local and national charities and contributed to community support in 2018

Government and regulatory bodies

Link to strategy     

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

Why we engage

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

How we engage

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

Trust



Sustainability



➤ Governance on pages 42 to 47



Delivering growth

Our strategic goal is to deliver sustainable growth in shareholder value whilst taking into consideration the interests of all our stakeholders and the wider contribution we make to society.



Shareholder value

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



Sustainable profitability

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



Relationship building

To develop relationships with key stakeholders, customers and installers.

What we said we would do in 2018

- Grow EBITDA and ROCE.
- Make strategic investments for organic growth and acquisitions.

ROCE of
21.9% (2017: 20.8%)

- Deliver sustainable EPS and operating cash flow growth.
- Improve operational efficiency and continue to invest in the digital strategy.

EPS growth of
22%

- Promote integrated solutions and increase market share in our smaller businesses.
- Continue to develop the supply chain.

Registered installer teams now
approx. 1,900

What we have achieved

- ROCE of 23.3 per cent (on a like-for-like basis, excluding the impact of Edenhall).
- Growth in EBITDA of 19 per cent to £80.8 million.
- Market share gains.
- Supplementary dividend.

- 21 per cent growth in operating profit driven by sustainable efficiency improvements.
- Increase in operating profit percentage to 13.2 per cent (2017: 12.4 per cent).
- Sales of new products in the core business now represent 12 per cent of total revenue.
- Continuing to exceed CPA growth forecasts.

- Dedicated "customer experience" team with strengthened relationships.
- 98 per cent customer service KPI.
- New Commercial website.
- 1,900 registered installer teams.

Our strategic priorities

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

- To outperform the market.
- To deliver new and innovative product solutions.
- To improve operational efficiency of our manufacturing and logistics network.
- To drive through sustainable cost reductions.

- Sustainable and ethical materials supply – to enable manufacturing flexibility.
- To focus on customer satisfaction.
- To promote integrated product solutions.
- To focus on installer training, marketing and sales support.

Our future targets

- To grow ROCE and EBITDA and continue to deliver long-term sustainable shareholder value.
- Digital transformation.

- To deliver sustainable EPS growth.
- New product development to drive growth.
- Logistics excellence.

- To continue to invest in digital and systems improvements to improve communication efficiency and stakeholder engagement.



Developing strategy

Our 2020 strategy has been consistently followed during the last 3 years and has delivered strong growth. The Group is now well advanced in mapping out its ambitions for the next 5 years, setting strategic objectives that continue to support long-term sustainable growth. The Group's strategic planning process incorporates engagement with stakeholders and a Board priority for 2019 includes the launch of the Group's strategy for the next 5 years.

> Key Performance Indicators on pages 20 and 21

> Risks on pages 23 to 27



Organic expansion

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

- Target growth areas of New Build Housing, Road, Rail and Water Management.
- Increase capital expenditure for organic growth.

Self help capital investment in 2018
£17.0m

- Revenue growth of 14 per cent to £491.0 million.
- Significant growth in key focus areas whilst maintaining operational flexibility.
- Strong growth in New Build Housing revenue.
- Self help capital investment of £30.7 million over the last 3 years.

- To target growth areas such as New Build Housing, Road, Rail and Water Management.
- To invest in capital expenditure for organic growth.
- To increase sustainable profitability in the smaller UK and International businesses.
- New product development – aesthetics, installation, functionality.

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



Brand development

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

- Maintain "Superbrand" status.
- Focus on product innovation and customer service.

R&D investment of
£4.9m

- "Superbrand" status.
- Continued development of Marshalls brand.
- Developed product range.
- Introduced 67 new product ranges to market in the current cycle.
- Integrated CPM into Landscape Products.

- To focus on corporate culture.
- Customer satisfaction – to be the supplier of choice.
- To focus on innovation, customer service and product quality.
- To maintain the highest health and safety standards.

- To maintain the Group's market leading position and increase brand preference for product specification.
- Brand preference that drives product specification.



Effective capital structure and control framework

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

- Maintain a net debt to EBITDA ratio of between 0 and 1 times.
- Delivered on the capital allocation priorities.

Net debt: EBITDA
0.46 ratio

- Strong balance sheet.
- Low gearing of 14 per cent at 31 December 2018 (post acquisition of Edenhall).
- Efficient portfolio of bank facilities with extended maturities and realigned headroom.
- Continued focus on working capital management and efficient inventory control.

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

- To operate tight control over business, operational and financial procedures.
- To target a net debt to EBITDA ratio of between 0 and 1 times over the business cycle.

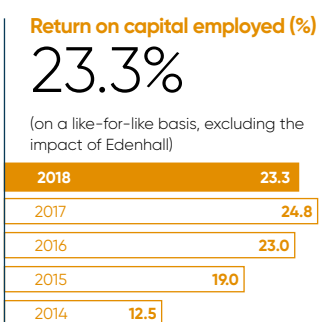
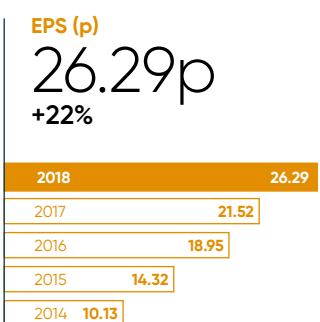
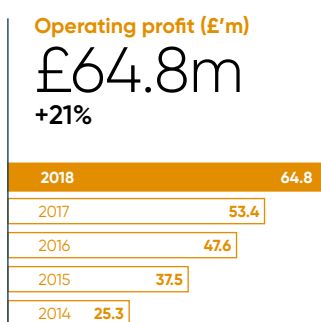
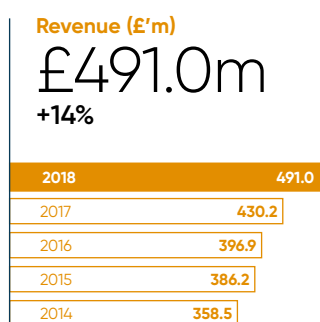


Measuring our performance

The Group's KPIs monitor progress towards the achievement of its objectives. All of the Group's strategic KPIs have moved forward strongly during 2018.

Strategic objectives:

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



Link to strategy



Delivering growth is key to the Group strategy.

2018 performance

Group revenue has increased by 14 per cent in 2018. Growth in Commercial revenue was particularly strong at 20 per cent.

Strategic targets

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

Remuneration linkage

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

Risk management

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

Stakeholder linkage

- Customers
- Suppliers
- Employees
- Communities

Link to strategy



The sustainable improvement in profitability is a strategic priority.

2018 performance

Operating profit has increased by 21 per cent to £64.8 million in 2018. The Group's strong operational gearing has driven an increase in reported operating margin from 12.4 per cent to 13.2 per cent.

Strategic targets

Sustainable improvement in profitability.

Remuneration linkage

EPS and OCF are both remuneration performance targets.

Risk management

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

Stakeholder linkage

- Shareholders
- Employees

Link to strategy



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

2018 performance

Group EPS has increased by 22 per cent in 2018 to 26.29 pence.

Strategic targets

EPS growth is a strategic target.

Remuneration linkage

EPS growth is the key remuneration performance target.

Risk management

The Group focuses on sales opportunities and strategic growth opportunities.

Stakeholder linkage

- Shareholders
- Employees

Link to strategy



ROCE remains an important indicator of sustainable shareholder value.

2018 performance

Group ROCE is 23.3 per cent for the year ended 31 December 2018, on a like-for-like basis (excluding the impact of Edenhall). ROCE is defined as EBITA / shareholders' funds plus cash / net debt.

Strategic targets

The strategic target is to continue to grow ROCE.

Remuneration linkage

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

Risk management

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

Stakeholder linkage

- Shareholders
- Employees



Non-financial information statement

It is the aim of Marshalls to comply fully with the non-financial reporting requirements that are contained in Sections 414CA and 414CB of the Companies Act 2006. The operation of all policies referred to and consideration of any outcomes are monitored as part of the internal governance processes. Further information can be found in the Governance and Risk Management sections of the Annual Report.

- **Business Model** on pages 14 and 15
- **Stakeholder Engagement** on pages 16 and 17
- **Risks** on pages 23 to 27
- **Sustainability** on pages 34 to 37
- **Remuneration** on pages 53 to 72

Strategic objectives:

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

Net debt (£'m)
£(37.4)m

2018	2017	2016	2015	2014
(37.4)	(24.3)	5.4	(11.5)	(30.5)

Link to strategy



Marshalls continues to support a prudent capital structure.

2018 performance

Significant cash generation has continued and, notwithstanding the acquisition of Edenhall, gearing remains low at 14 per cent at 31 December 2018. Net debt was £37.4 million at 31 December 2018.

Strategic targets

The Group's strategic target is for the ratio of net debt to EBITDA to be between 0 and 1 times over the business cycle.

Remuneration linkage

OCF is a remuneration performance target.

Risk management

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

Stakeholder linkage

Shareholders
Employees
Customers
Suppliers

Dividend per share (recommended, p)
12.00p
+18%

2018	2017	2016	2015	2014
12.00	10.20	8.70	7.00	6.00

Link to strategy



A progressive dividend policy remains a key objective.

2018 performance

The ordinary dividend per share increased by 18 per cent to 12.00 pence. On an IFRS basis, the dividends declared in the year ended 31 December 2018 are 14.80 pence, an increase of 21 per cent.

Strategic targets

The continuing strategy is to maintain up to 2 times cover over the business cycle.

Remuneration linkage

Significant proportion of variable pay linked to share price or held in the form of deferred shares.

Risk management

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

Stakeholder linkage

Shareholders

Customer service index
98%

2018	2017	2016	2015	2014
98	98	98	98	97

Link to strategy



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

2018 performance

The combined customer service measure continued to be in excess of 98 per cent throughout 2018.

Strategic targets

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

Remuneration linkage

Customer service is a remuneration performance target.

Risk management

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

Stakeholder linkage

Customers
Communities
Environment

Health and safety (reduction in working days lost, %)
61%

2018	2017	2016	2015	2014
61	46	20	43	30

Link to strategy



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

2018 performance

In 2018 there was a 61 per cent reduction in days lost from workplace incidents compared with the target benchmark. The CPM sites were fully integrated into the Group's health and safety programme.

Strategic targets

The headline target for 2018 was to achieve an accident rate for the year no higher than the 2015 actual results.

Remuneration linkage

Health and safety is a remuneration performance target.

Risk management

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

Stakeholder linkage

Employees
Communities
Environment



Digital transformation

Customer-focused digital strategy and vision

Digital at Marshalls is defined as giving the customer the right data, at the right time, in the right format. It is all about improving the customer experience, whether that be for internal or external users. Like many businesses, we are starting on the journey of providing our customers with world-class experiences that help us retain their business and loyalty. In 2018 we have delivered a number of projects that act as the bedrock for future activities.

➤ **Business Model** on pages 14 and 15 ➤ **Strategy** on pages 18 and 19



Progress in 2018

E-platform

A key area of focus in 2018 was the Commercial website and the infrastructure required to deliver better experiences for users. The scope for 2018 was our Commercial product offering. Customer research and testing informed the design and build of the website and highlighted the need for access to more imagery and detailed product data to aid specification of Marshalls products. The challenge was to deliver a new Commercial website that is shaped around the customer rather than Marshalls. Data is key to the website and considerable time has been invested in creating a central product data repository. The website runs on state-of-the-art digital infrastructure, including third party software and minimal bespoke code, hosted in the cloud, independent of Marshalls' internal infrastructure promoting our principle of agility.



Key points

- Commercial website has 300,000+ pieces of data and over 12,000 images;
- Runs on a new digital infrastructure that provides us with greater agility and a blueprint for future systems architecture;
- Mobile optimised; and
- Ability to personalise content for different types of customers and use data to drive automated marketing campaigns. This will assist in the creation of marketing qualified leads.

Artificial intelligence – Voice Assistant

Artificial intelligence is a technology that can emulate human behaviour by seeming to learn. It will change the world and Marshalls has started to embrace it, making significant progress in the area of natural language processing. By 2020 it is expected that 50 per cent of all searches will be voice searches. Marshalls has created a voice application that will answer our most frequently asked questions via Google smart speaker home devices and their virtual assistant, which is available in Android and iOS app stores.

Key points

- The Marshalls Voice Assistant can respond to over 80 questions, asked in over 3,000 ways. This will grow over time as the application is trained in more areas;
- It ensures the Marshalls brand is present in an emerging digital channel; and
- The framework can be extended to "livechat" via websites to enable out of hours support on the most frequently asked questions.



What the future holds

Marshalls' digital strategy and vision have started to deliver realised benefits in 2018 with a number of key milestones reached. This groundwork will allow the business to accelerate the programme into 2019 and beyond. The focus for 2019 will be around:

- Rolling out the new digital platform to more areas of the business, including the recently acquired businesses of CPM and Edenhall;
- The extension of the artificial intelligence framework to areas such as machine learning and further developing the natural language processing capabilities to support customers out of hours; and
- Leveraging cloud technology to modernise IT infrastructure by delivering increased agility, management and security.

Managing risk to deliver strategic objectives

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

Achievements in 2018

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

- Cyber risk has continued to be a major focus area for risk assessment. Further internal audit projects and penetration tests have been undertaken and continued improvements have been made to mitigate risk, improve IT security and safeguard business continuity and our industrial network.
- Health and safety has been a key priority for the CPM integration and the reduction of health and safety risk continues to be a key focus for the Group.
- KPMG completed a number of targeted internal audit projects during 2018 including post-acquisition business integration (following the acquisition of CPM), inventory management, GDPR, human resource systems and procedures.
- A detailed annual review of the Group's capital structure has been undertaken to ensure it remains aligned with corporate growth objectives and takes full account of the increasing external political and economic uncertainty in the pre-Brexit risk environment.
- The Group has maintained a conservative capital structure with a strong balance sheet and comfortable headroom against bank facilities provides significant mitigation against potential market risk.

Priorities for 2019

The priorities for the Group's risk function in 2019 include the following areas of focus:

- The potential impact of Brexit and wider economic and political uncertainty continues to be a major risk. During 2019, the Group's Brexit and "downturn" contingency planning will continue to be a priority.
- The rapid pace of change in the wider environment necessitates cyber risk remaining a key priority for 2019. Further assignments and penetration tests are planned.
- Health and safety remains a major focus area. Significant increases in the financial penalty regime have increased the potential impact of health and safety incidents.
- The completion of a number of targeted projects will again be a major focus for KPMG. In 2019, projects covering general IT controls, health and safety, rebates, logistics and fleet management are planned.
- Proactive supply chain management continues to be a focus area for the Group and a further internal audit project is being planned by KPMG in 2019. This will include further consideration of risk mitigation in relation to the certainty of the supply of raw materials within the wider supply chain.

Approach to risk management

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

Process

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

The Group Risk Register is reviewed and updated by the full Executive management team at least every 6 months and the overall process is the subject of regular review. Risks are recorded with a full analysis and risk owners are nominated who have authority and responsibility for assessing and managing the risk. KPMG, as the Group's internal auditor, attended the most recent risk review meeting. The conclusion of KPMG is that the process continues to be a robust mechanism for monitoring and controlling the Group's principal risks. All risks are aligned with the Group's strategic objectives and each risk is analysed for impact and probability to determine exposure and impact to the business and the determination of a "gross risk score" enables risk exposure to be prioritised.

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

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

Risk appetite

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

Risk Management and Principal Risks *continued*

Framework

The Board:

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

The Audit Committee:

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

Executive Directors:

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

Internal audit:

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

Operational managers:

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

Viability Statement

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

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

The Board continues to believe that 3 years is an appropriate period of assessment and considers that it has reasonable visibility of the market over a 3-year period to 31 December 2021. A 3-year period is consequently considered appropriate for the Viability Statement. The Group's strategic plan includes an integrated model that incorporates the income statement, balance sheet and cash flow projections. Key KPIs and financial ratios are reviewed along with the ongoing appropriateness of all assumptions used. Scenario planning is undertaken along with stress testing against downside sensitivities. The stress testing reflects the principal risks that could conceivably threaten the Group's ability to continue operating as a going concern and focuses on scenarios that might give rise to sales volume reductions, deteriorating operating margins and increases in interest rates. The macro-economic and political background is the Group's key risk area and all of the Group's other principal risks are covered within the same downside stress tests. The stress testing applied in 2018 has been especially mindful of the increased Brexit uncertainty and a greater assessment of market risk due to political and economic uncertainty. The stress testing undertaken reflects a suitably cautious economic outlook and remains a key part of the Group's detailed approach to capital structure and forecasting. A significant stress test has been applied to reflect a dramatic economic downturn and to replicate the financial impact of the last recession as the core sensitivity, with significantly reduced sales volumes giving rise to a 33 per cent decrease in revenue over the next 3 years. None of the individual sensitivities applied impact the Directors' assessment of viability. Even under the deep stress test all bank covenants are met and the gearing and net debt / EBITDA metrics remain sustainable. The Group would undertake significant mitigation measures in a deep downturn and this would create additional contingency.

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

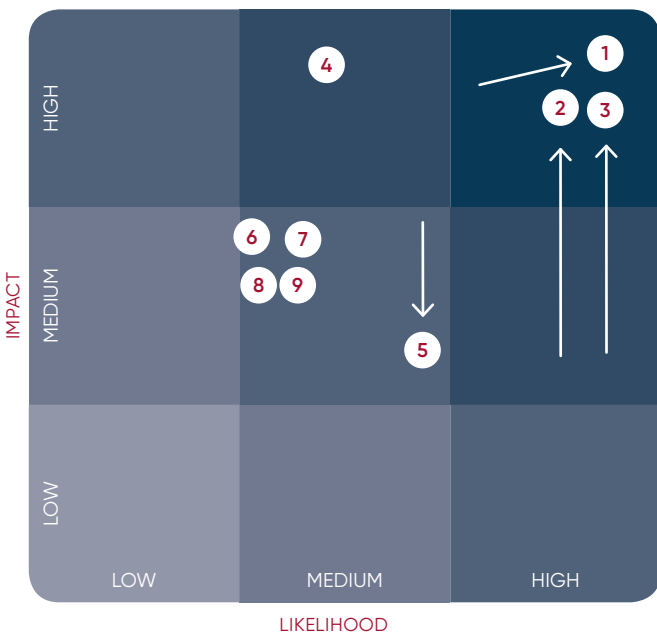
Brexit

Prolonged uncertainty over exit terms and continued weakness in Sterling may lead to a slowdown in the UK economy and a reduction in consumer confidence. Marshalls has strong market positions and a strategy of targeting those market areas where growth prospects are greatest. During 2018, the potential impact of Brexit and wider economic and political uncertainties have been considered in the assessment of risk 1 on page 25. This assessment has included significant stress testing of financial models and risk mitigation measures within the Group's supply chain. The Group has developed a detailed Brexit plan to mitigate the risk of raw material shortages.

Principal risks and uncertainties

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

Risk heatmap (net risk scores)



- | | | |
|-----------------------------------|-------------------------------|--|
| 1 Macro-economic and political | 5 Integration of acquisitions | 8 Threat from new technologies and business models |
| 2 Cyber security risks | 6 Customers | 9 Corporate, legal and regulatory |
| 3 Security of raw material supply | 7 Competitor activity | |
| 4 Weather | | |



Impact on business model:

- Sourcing
- Manufacturing
- Distribution
- Customers

Strategic objectives:

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

Macro-economic and political

Impact on business model



Link to strategy



Nature of risk

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

Potential impact

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

Key risk indicators

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

Mitigating factors

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

Change in risk in the year

The continued uncertainty and volatility in world markets has increased global economic uncertainty. The CPA forecasts have continued to soften in the shorter term in the wake of continued Brexit uncertainty and the increased likelihood of a "no deal" outcome. Political divisions in the UK Parliament continue to increase uncertainty with implications for Sterling and business confidence.

Cyber security risks

Impact on business model



Link to strategy



Nature of risk

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

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

Potential impact

Risk of data loss causing financial and reputational risk.

Key risk indicators

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

Mitigating factors

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

Change in risk in the year

This remains a high profile area and considerable focus is being given to promoting awareness of IT security policies. The risk is increasing despite the continued extension of mitigation controls. There is a perception that the risk of data loss through new (or as yet unseen) security threats has increased.

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

Security of raw material supply

Impact on business model



Link to strategy



Nature of risk

In view of the continued Brexit uncertainty, there is a risk to the security of raw material supply and the risk of shortages in some areas.

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

Potential impact

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

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

Key risk indicators

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

Mitigating factors

- The Group benefits from the diversity of its business and end markets.
- We are collaborating with all EU-based Tier 1 and Tier 2 suppliers to ensure any supply risks from a Hard Brexit are minimised.
- The Group focuses on its supplier relationships, flexible contracts and the use of hedging instruments.
- The Group utilises sales pricing and purchasing policies designed to mitigate the risks.
- The Group uses specialist delivery vehicles.

Change in risk in the year

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

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

In 2019 we will be digitising our supply chain through the implementation of a best-in-class Supply Relationship Management System.



Risk Management and Principal Risks *continued*

Weather

Impact on business model



Link to strategy

**Nature of risk**

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

Potential impact

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

Key risk indicators

- Prolonged periods of bad weather (e.g. snow, ice and floods) which makes groundworking difficult or impossible. An example of this was the extensive period of snow and ice in Q1 2018 when the Group's plants had to be closed for several days.

Mitigating factors

- The Group has a continuing focus on new product development, including landscape water management.
- The Group is developing its internal flooring offer and International strategy in order to diversify its activities.
- The development of the Group's Water Management business is a significant opportunity. The acquisition of CPM has significantly moved the Group forward in this area and the successful integration of CPM has been a significant step in the stated strategy of providing a full water management capability.

Change in risk in the year

Weather conditions continue to be closely monitored but are beyond the Group's control.



Integration of acquisitions

Impact on business model



Link to strategy

**Nature of risk**

The successful integration of acquisitions (e.g. Edenhall and CPM) into the Marshalls Group is a significant business issue.

Potential impact

There is a risk that business integration could take longer than expected. This could impact the expected financial performance and reduce the positive impact of potential synergy benefits.

Key risk indicators

- The acquisitions of CPM and Edenhall could potentially put increased pressure on the Group's resources.

Mitigating factors

- Any legal or regulatory matters identified during due diligence are addressed in the sale and purchase agreement. For example, risk mitigation for CPM required £12 million to be paid into an escrow account pending the resolution of these issues. The Group has a right of reimbursement of amounts held in the escrow account to the extent that any liability crystallises.
- The Group has a detailed integration plan which covers all business areas and is focused on risk reduction and maximising opportunity. The plan also focuses on ethical training and a detailed health and safety plan.
- The integration plans have Executive-level focus and is being administered by a dedicated Integration Manager.
- Post-integration reviews are undertaken by KPMG (e.g. CPM integration review in Q3 2018).

Change in risk in the year

The successful integration of CPM has provided a proven template for the Group's integration model and planning. The integration projects continue to receive significant management and Board focus.



Customers

Impact on business model



Link to strategy

**Nature of risk**

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

Potential impact

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

Key risk indicators

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

Mitigating factors

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

Change in risk in the year

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



Impact on business model:

- Sourcing
 Manufacturing
 Distribution
 Customers

Strategic objectives:

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

Competitor activity

Impact on business model

Link to strategy

Nature of risk

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

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

Potential impact

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

Key risk indicators

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

Mitigating factors

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

Change in risk in the year

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



Threat from new technologies and new business models

Impact on business model

Link to strategy

Nature of risk

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

Potential impact

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

Key risk indicators

- Less demand for traditional products.
- Emergence of new competitors and new digital business models.

Mitigating factors

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

Change in risk in the year

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



Corporate, legal and regulatory

Impact on business model

Link to strategy

Nature of risk

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

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

Potential impact

An incident could lead to a disruption to production and the supply of products for customers. This could increase costs and have a potential negative impact on the Group's reputation.

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

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

Key risk indicators

- Increased regulatory and compliance requirements.
- Integration requirements for new acquisitions.
- Significant increases in the penalty regime for health and safety and environmental incidents.

Mitigating factors

- The Group has a formal Group sustainability strategy focusing on impact reduction.
- The Group employs compliance procedures, policies, ISO standards and independent audit processes which seek to ensure that local, national and international regulatory and compliance procedures are fully complied with.
- The Group uses professional specialists covering carbon reduction, water management and biodiversity.

Change in risk in the year

The Group continues to improve compliance procedures within the supply chain.

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



Innovation and new product development

A strategic objective is to invest in new product development within the core landscaping product range – in order to focus on consumer demand and the requirements of the customer.

Our innovation cycle

There is a critical relationship between products, process and materials for development of new products. The Group's innovation cycle combines intelligence, innovation and delivery, and is a driver of growth. We apply dedicated and focused resources to deliver a high level of technical competence in materials, automation, digital technology, engineering and product design. Marshalls has excellent trial and development facilities and can deliver a high level of product complexity.

In the current innovation cycle we have launched

67

new product ranges

R&D investment

£4.9m



R&D case study

Drivesett Coppice incorporates the Group's new "surface performance technology" and also provides an innovative blend of colours which provides a practical solution and beautiful aesthetic for the customer.

“

SPT® products accounted for 20% of overall Domestic Concrete Block Paving sales in 2018.”



> www.marshalls.co.uk/homeowners

> Strategy on pages 18 and 19



Continued development of the Group's growth strategy

Summary

- Operating profit up 21% to £64.8 million
- EBITDA up 19% to £80.8 million
- Acquisition of Edenhall in December 2018
- Successful integration of CPM
- Consistently strong return on capital employed at 23.3% (excluding Edenhall)
- Strong operating cash flow at 92% of EBITDA
- Significant facility headroom for investment
- Increase in final ordinary dividend of 18%
- Additional supplementary dividend of 4.00 pence per share



The Group has continued to strengthen its market position and its operating margin has increased to 13.2 per cent."



Trading summary

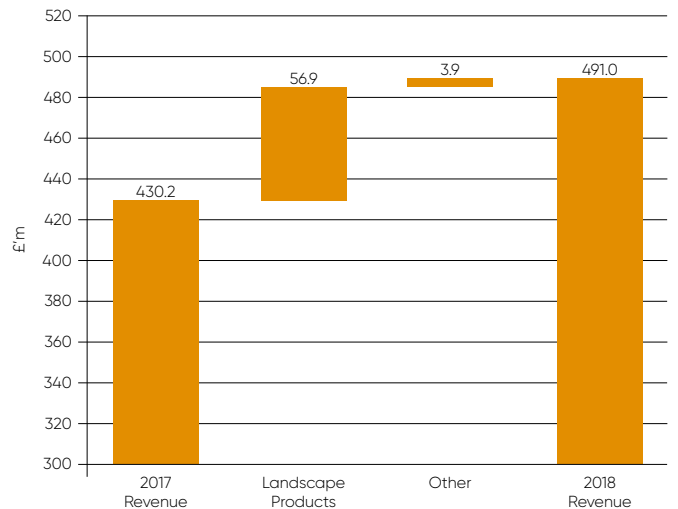
Revenue

Revenue for the year ended 31 December 2018 was £491.0 million (2017: £430.2 million), which represented an increase of 14 per cent. Revenue growth in the second half of the year was particularly strong at 17 per cent. This enabled the Group to gain ground following the first 4 months of the year, which were affected by severe weather conditions. Group revenue includes £0.7 million from Edenhall for the period since its acquisition on 11 December 2018.

Analysis of sales by end market	2018 £'m	2017 £'m	Change %
UK Domestic	140.0	135.4	3
Public Sector and Commercial	327.1	271.8	20
International	23.9	23.0	4
	491.0	430.2	14
	%	%	
UK Domestic	29	32	
Public Sector and Commercial	66	63	
International	5	5	

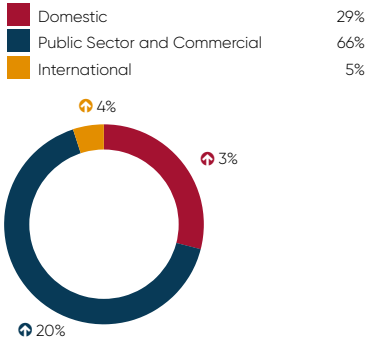
Revenue variance analysis

2017/2018

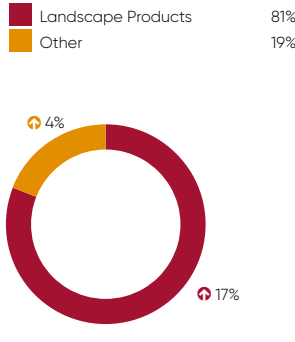


Financial Review *continued*

Revenue by end market



Revenue by area



Return on capital employed (%)

23.3%¹
(21.9% on a reported basis)

Year	Return on Capital Employed (%)
2018	23.3
2017	24.8
2016	23.0
2015	19.0
2014	12.5

¹ On a like-for-like basis (excluding the impact of Edenhall in 2018 and CPM in 2017).

Public Sector and Commercial

Sales in the Public Sector and Commercial end market include a full year contribution from CPM and were up 20 per cent compared with 2017. Public Sector and Commercial revenue represented 66 per cent of Group sales. Sales growth in the second half of the year has been strong and revenue was up 22 per cent.

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

Our "Design Space" office in Central London showcases the Group's brand leading capabilities and technical and design solutions. We continue to develop this facility in order to showcase new concepts and designs with architects using digital technology to facilitate the selection and specification of our ranges.

Domestic

Revenue in the Domestic end market grew by 3 per cent. Sales to the UK Domestic end market now represent approximately 29 per cent of Group sales. Sales growth in the second half of the year was 7 per cent.

Installer order books at the end of February 2019 were 10.0 weeks (February 2018: 10.8 weeks), compared with 10.8 weeks at the end of October 2018. The Group's industry leading standards remained high in 2018 with a combined customer service measure of 98 per cent (2017: 98 per cent) and market leading geographical coverage.

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

International

Sales to International markets increased by 4 per cent and represent approximately 5 per cent of Group sales. The Group continues to develop its global supply chains and infrastructure to ensure that international operations are aligned with market opportunities. The Group's international focus is centred on the US, Western Europe and Middle East markets.

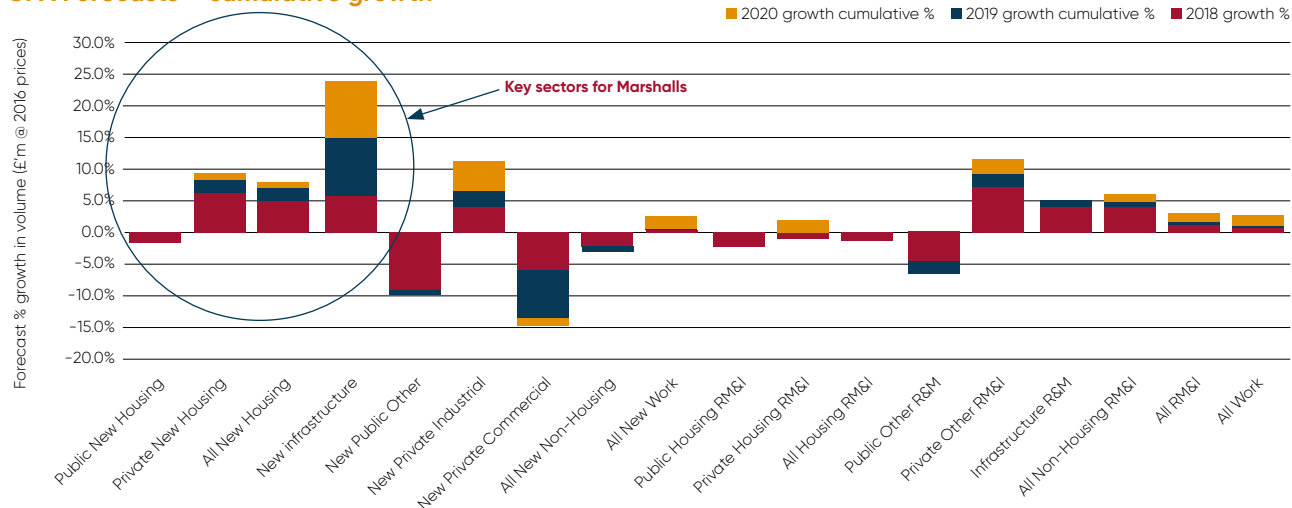
Acquisition of Edenhall

New Build Housing is a strategic growth area for Marshalls and the acquisition of Edenhall on 11 December 2018 provides a significant extension of the product range. The company has a strong track record of quality and service.

Edenhall is a leading UK supplier of sustainable concrete products for the construction industry, supplying facing bricks in all shades from white to blue and in a wide variety of textures from smooth to sand-faced and weathered finishes. Manufacturing takes place at a number of sites across England, Scotland and Wales and the business offers full national coverage and distribution. Edenhall's revenue for the year ended 31 December 2018 was £33 million.

A new factory in South Wales is to be commissioned in Spring 2019 to increase capacity and drive growth. The acquisition has been funded from existing facilities and an additional £25 million debt facility was established to maintain headroom capacity.

CPA Forecasts – cumulative growth



Integration of CPM

A detailed integration plan was instigated upon the acquisition of the business in October 2017. This covered all areas of the business and required close engagement between Marshalls and CPM's operational management team. KPMG undertook an internal audit project to review the design and content of the integration plan and to assess the controls in place around its management and implementation. The governance around the integration has been effective and feedback from key stakeholders involved in the project was positive in relation to how the successful integration was managed.

Systems were fully integrated in the second half of 2018 and a number of synergies and efficiency improvement projects are now in progress. Recent growth has been supported by an expansion in production capabilities following the commissioning of a new factory at Mells, in Somerset. The provision of bespoke "off-site" solutions is a particularly successful part of the business operations and this area of the business has continued to expand in 2018.

Operating profit

Operating profit was £64.8 million (2017: £53.4 million), which represents an increase of 21 per cent. This is after charging £1.2 million (2017: £1.2 million) of operational restructuring costs and £0.4 million (2017: £0.8 million) of acquisition costs.

Operating profit

	2018 £'m	2017 £'m	Change %
Continuing operations			
EBITDA	80.8	67.9	19
Depreciation / amortisation	(16.0)	(14.5)	
Operating profit	64.8	53.4	21

EBITDA increased by 19 per cent to £80.8 million (2017: £67.9 million) and EPS was 26.29 pence (2017: 21.52 pence), an increase of 22 per cent.

ROCE remained strong and, notwithstanding the acquisition of Edenhall in December 2018, was 21.9 per cent (2017: 20.8 per cent), on a reported basis, at 31 December 2018. On a like-for-like basis (excluding the acquisition of Edenhall) ROCE was 23.3 per cent (2017: 24.8 per cent). Capital employed has increased by 16.1 per cent to £304.1 million (2017: £261.9 million) following the acquisition of Edenhall. The consistently high ROCE reflects the Group's focus on capital structure and the tight control and management of inventory and monetary working capital.

Profit margins

The Group has continued to strengthen its market position and operating margin has increased to 13.2 per cent (2017: 12.4 per cent).

Margin analysis	Revenue £'m	Reported operating profit £'m	Margin impact %
2017	430.2	53.4	12.4
Landscape Products	56.9	8.1	0.2
Other	3.9	3.3	0.6
2018	491.0	64.8	13.2

The table illustrates the impact of operational gearing in the core business and shows that growth has continued to be ahead of CPA forecasts. The Group's Landscape Products business is a reportable segment servicing both the UK Public Sector and Commercial and UK Domestic end markets. Revenue increased by £56.9 million and operating profit grew by £8.1 million in the Landscape Products business.

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

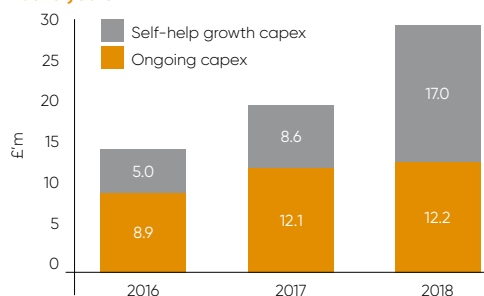
Continued development of the Group's growth strategy

During 2018, capital investment in property, plant and equipment (including software) totalled £27.3 million (2017: £22.5 million). This compares with depreciation of £16.0 million (2017: £14.5 million).

Self help expenditure is additional to ongoing spend and must be "value added" providing significant improvement in yields and efficiency. Self help capital expenditure was £17.0 million in 2018 (2017: £8.6 million). This includes projects to deliver new, innovative products and to drive through sustainable cost reductions and improvements in operational efficiency. We continue to have a strong pipeline of such projects and, including Edenhall, capital expenditure of £23 million is planned for 2019. Further details of the Group's self help capital investment during 2018 are shown on page 10, including a case study focusing on a £3.5 million investment in a static crushing plant at Howley Park. This investment will increase capacity significantly and reduce operating costs.

Capital expenditure

Last 3 years



Research and development expenditure in the year ended 31 December 2018 amounted to £4.9 million (2017: £3.9 million). Investment in research and development covers a number of areas including the development of the Group's project engineering and manufacturing capabilities, concrete and other materials, technology innovations and extending the new product pipeline. Revenue from new products in 2018 in the core Landscape Products business represented 12 per cent of total sales.

Further investment continues to be made to develop our wide-ranging digital strategy, encompassing digital trading, digital marketing and digital business. More details are provided on page 22.

Net financial expenses

Net finance costs were £1.9 million (2017: £1.4 million) and interest was covered 34.1 times (2017: 38.5 times). Interest charges on bank loans totalled £1.4 million (2017: £1.0 million) and, including scheme administration costs, there was an IAS 19 notional interest charge of £0.5 million (2017: £0.4 million) in relation to the Group's pension scheme. The IAS 19 notional interest includes interest on obligations under the defined benefit section of the Marshalls plc pension scheme, net of the expected return on scheme assets.

Taxation

The effective tax rate was 18.0 per cent (2017: 19.1 per cent). The Group paid £9.9 million (2017: £10.5 million) of corporation tax during the year. Deferred tax of £1.7 million in relation to the actuarial gain arising on the defined benefit pension scheme in the year has been taken to the Consolidated Statement of Comprehensive Income.

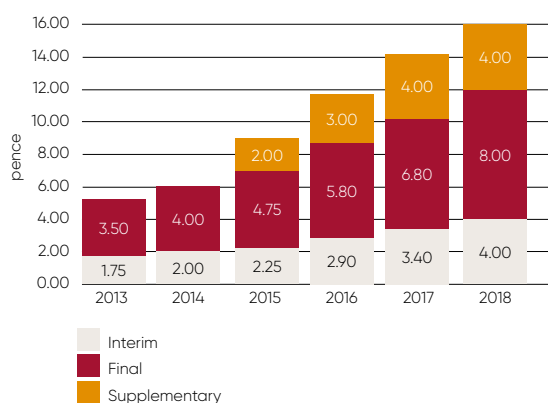
For the fifth year running, Marshalls has been awarded the Fair Tax Mark, which recognises social responsibility and transparency in a company's tax affairs. The Group's tax approach has long been closely aligned with the Fair Tax Mark's objectives and this is supported by the Group's tax strategy and fully transparent tax disclosures. Taking into account not only corporation tax paid but also the PAYE and NI paid on our employee wages, aggregate levy, VAT, fuel duty and business rates, Marshalls has funded total taxation receipts to the UK economy of £108 million during 2018.



Financial Review *continued*

Dividends

The recommended supplementary dividend of 4.00 pence (2017: 4.00 pence) per share is discretionary and non-recurring. The level of recommended supplementary dividend recognises external market uncertainty and the need to remain cautious and maintain a conservative and flexible capital structure. It also reflects that the business has sufficient capital both to finance increased investment and to maintain an appropriate supplementary dividend. When added to the normal full year dividend of 8.00 pence, this gives a total dividend for the year of 16.00 pence, which represents an increase against the prior year of 13 per cent. The incremental cash outflow in 2018 in relation to the supplementary dividend has been £7.9 million and will be approximately £7.9 million in 2019.



Balance sheet

Net assets at 31 December 2018 were £266.7 million (2017: £237.6 million). The Group has a strong balance sheet with a good range of medium-term bank facilities available to fund investment initiatives to generate growth.

Group balance sheet	2018 £'m	2017 £'m
Non-current assets	295.6	248.1
Current assets	210.7	166.3
Current liabilities	(134.6)	(109.5)
Non-current liabilities	(105.0)	(67.3)
Net assets	266.7	237.6
Net debt	(37.4)	(24.3)

Working capital management

The Group continues to prioritise the close control of inventory, the improvement in inventory turn and the effective management of working capital. Debtor days remain industry leading due to continued close control of credit management procedures. The Group maintains credit insurance which provides excellent intelligence to minimise the number and value of bad debts and ultimately provides compensation if bad debts are incurred. We do not engage in debt factoring. The Group complies with prompt payment guidelines and best practice and abides by a clearly defined payment policy which has been agreed with all major suppliers.

Pension

The balance sheet value of the Group's defined benefit pension scheme was a surplus of £13.5 million (2017: £4.1 million). The amount has been determined by the scheme actuary. The fair value of the scheme assets at 31 December 2018 was £343.7 million (2017: £354.7 million) and the present value of the scheme liabilities is £330.2 million (2017: £350.6 million). Following the High Court ruling in the Lloyds Banking case, an adjustment of £1.5 million has been made to increase scheme liabilities for GMP equalisation. This has been recorded in the current year Income Statement as a past service cost.

These changes have resulted in an actuarial gain, net of deferred taxation, of £8.3 million (2017: £0.3 million actuarial gain) and this has been recorded in the Consolidated Statement of Comprehensive Income. The Company has previously agreed with the Trustee that no cash contributions are now payable under the funding and recovery plan.

Capital allocation

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

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

Analysis of net debt

Net debt at 31 December 2018 was £37.4 million (2017: £24.3 million), which reflects the payment of initial consideration of £11.7 million in relation to the acquisition of Edenhall, together with the impact of Edenhall's net borrowings taken on of £4.7 million. The ratio of net debt to EBITDA was 0.5 times at 31 December 2018 which is comfortably within our target range of between 0 to 1 times and well below covenant levels.

Priorities for capital

Organic growth
Capital investment in growth projects. Plan £23 million in 2019.

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

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

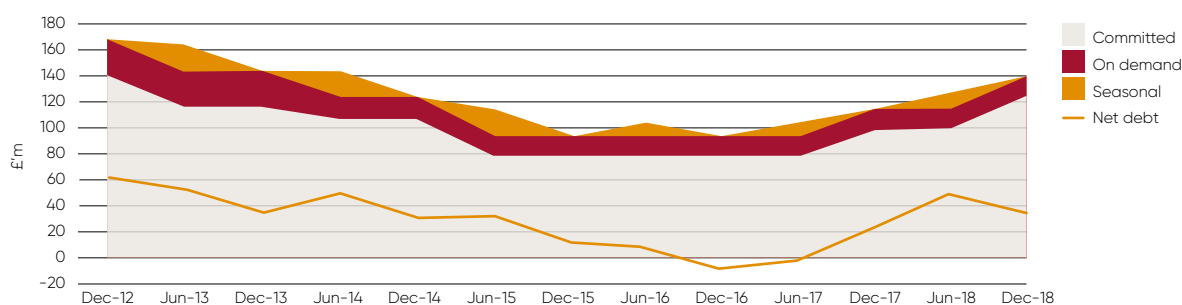
Selective acquisitions
Target selective bolt-on acquisition opportunities in New Build Housing, Water Management, Landscape Protection and Minerals.

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

Delivery over the last 3 years



Banking facility headroom



Cash management continues to be a high priority with continued focus on the close control of inventory and the effective management of working capital. The key working capital metrics are in line with the Group plan.

Borrowing facilities

On 9 August 2018, the Group renewed its short-term working capital facilities of £25.0 million. This includes a seasonal working capital facility of £10.0 million which is available between 1 February and 31 August each year. To support the acquisition of Edenhall the Group has taken out an additional committed facility of £25.0 million. The Group continues its policy of having a range of committed bank facilities in place with a positive spread of medium-term maturities that now extends to 2024. The Group's committed facilities are all revolving credit facilities with interest charged at a variable rate based on LIBOR.

The total bank borrowing facilities at 31 December 2018 amounted to £140 million (2017: £115.0 million), of which £60.5 million (2017: £71.1 million) remained unutilised. Interest cover and net debt to EBITDA covenants in the facilities were comfortably met at the year end. The bank facilities are unsecured save for inter-company guarantees between the Group and its subsidiary undertakings in favour of the facility banks.

Expiry date	Facility £'m	Cumulative facility £'m
Committed facilities		
Q1 2024	25	25
Q3 2023	20	45
Q3 2022	20	65
Q3 2021	20	85
Q3 2020	20	105
Q3 2019	20	125

On demand facilities

Available all year	15	140
Seasonal (February to August inclusive)	10	150

Cash generation

The Group is significantly cash generative. In the year ended 31 December 2018 net cash flow from operating activities was £63.3 million (2017: £57.3 million). The increase in net debt arising on the acquisition of Edenhall comprises the cash outflow in connection with the acquisition and the fair value of borrowings acquired.

Group cash flow	2018 £'m	2017 £'m
Net cash from operating activities	63.3	57.3
Net cash from investing activities	(39.4)	(58.0)
Net cash from financing activities	(36.9)	(28.5)
Movement in net debt in the year	(13.0)	(29.2)
Foreign exchange	(0.1)	(0.5)
Net (debt) / cash at beginning of year	(24.3)	5.4
Net debt at end of year	(37.4)	(24.3)

Cash outflow on capital expenditure in the year was £29.2 million (2017: £20.7 million). This included self help growth expenditure of £17.0 million and the replacement of existing assets, business improvements and new process technology. Dividend payments in the year were £29.2 million (2017: £24.1 million).

Analysis of cash utilisation	2018 £'m	2017 £'m	Last 3 years £'m
Net cash from operating activities	63.3	57.3	170.0
Capital expenditure	(29.2)	(20.7)	(63.8)
Proceeds from sale of property assets	1.6	3.9	9.3
Share issues / (purchases)	0.6	(1.1)	(1.6)
Share-based payments	(3.7)	–	(3.7)
Acquisition of subsidiary undertakings	(16.4)	(44.5)	(60.9)
Dividends	(29.2)	(24.1)	(72.3)
Movement in net debt	(13.0)	(29.2)	(23.0)

The chart above also provides a medium-term 3-year analysis of the cash generation capacity of the Group and how cash has been invested to grow the business and also to show the cash returned to shareholders. Cash generated from operating activities was £170.0 million. The Group has invested £63.8 million back into the business to generate growth, improve productivity and provide industry leading manufacturing facilities. The Group has also invested £60.9 million in the targeted acquisitions of CPM and Edenhall. Dividends to shareholders over the last 3 years have totalled £72.3 million, which equates to 43 per cent of net cash generated from operating activities.

Jack Clarke
Group Finance Director



At the heart of all we do

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



Human rights




Objectives

Marshalls continues to support the Universal Declaration of Human Rights. Our corporate responsibility to human rights means acting with due diligence to address any issues that do occur. We recognise that our responsibility applies across all business activities and our supply chain.

Progress

Human rights legislation and the issue of modern slavery remain key priorities. We are collaborating with Governments and UN agencies including the United Nations Global Compact. Our continued focus on mapping and understanding human rights risks in sourcing countries continues to inform our dynamic Ethical Risk Index. This is a leading source of information for stakeholders seeking to specify responsibly sourced building materials.

2019 priorities

- The implementation of our modern slavery programme remains a key focus, in tandem with our Ethical Trading Initiative Strategic Plan, which is built upon the ETI's Human Rights Due Diligence framework; and
- Collaborating with multiple stakeholders, both in the UK and in our overseas supply chains.

Future goals

- Further develop and implement a modern slavery identification and remediation process in the UK, and in supply chains in India, Vietnam and Europe;
- Report transparently on all efforts to respect human rights and prevent modern slavery; and
- Continue to develop our Ethical Risk Index methodology and procedures.

We have undertaken detailed **modern slavery analysis** for 25 of our sourcing countries.



Labour rights



Objectives

Marshalls' new Ethical Trading Initiative Strategic Plan (2018 – 2020) has been developed to support, strengthen and maximise our existing labour and human rights programme. We seek to further embed ethical trade into business activities and decision making and seek to improve conditions for workers, their families and communities.

Progress

We continue to be members of the ETI and our new ETI Strategic Plan has been developed to support, strengthen and maximise our continued drive to uphold and strengthen labour rights. The Plan honours our commitment to the ETI Base Code.

2019 priorities

- Develop internal processes and procedures to assess human rights risks and the effectiveness of ETI Base Code implementation in our business operations and global supply chain.

Future goals

- Further embed and integrate ethical trade into business practice;
- Promote procurement principles that comply with the UN Global Compact and ETI Base Code;
- Maintain commitment to the abolition of slavery in all its forms; and
- Continue to improve working conditions across the globe.

Marshalls maintains its **Living Wage accreditation**, which we have had since 2015.

Sustainability overview

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



WE SUPPORT



- Find out more online:
www.marshalls.co.uk/sustainability
- Climate Change Policy
www.marshalls.co.uk/ccp
- Carbon Disclosure Project
www.cdp.net
- Environmental
www.marshalls.co.uk/sustainability/environment



The environment



Objectives

Marshalls has a commitment to achieve the highest standards of environmental performance, preventing pollution and minimising the impact of its operations. The aim is to operate within the relevant legal frameworks and meet, or exceed, appropriate legislation and applicable best practice. The business has redefined its Sustainability Policies to align its business strategy and to ensure they are relevant and appropriate to its stakeholders. We are a founding signatory of the Sustainable Concrete Forum.

Progress

Marshalls has clear environmental, energy and climate change policies and a sustainability Policies plan with set KPIs. Marshalls is committed to reducing the energy and carbon impact of the business and is in line with the UK Government targets for 2020 and 2050.

2019 priorities

- To target 95 per cent of Group production to be manufactured at sites operating an integrated management system in accordance with Publicly Available Specification 99:2006 ("PAS 99"); and
- To fully integrate the acquisitions of CPM and Edenhall into the Group's environmental systems and procedures.

Future goals

- Continue to reduce the energy and carbon impact of the business and remain within UK Government targets;
- Progress commitment to our Science Based Target Initiative ("SBTi");
- Reduce the use of water from mains and licensed boreholes to 0.05m³ per tonne of production; and
- Reduce by 3 per cent the total waste to landfill per tonne of production.

Marshalls is a world leader in terms of products having a **calculated carbon footprint** – over 2,000 products.



Responsible business



Objectives

By being transparent in our dealings, whether they be financial, social or environmental, we seek to inspire trust with all our stakeholders. We have held the Fair Tax Mark for the last 5 years, and remain committed to conducting our business affairs with the utmost integrity and in accordance with the principles set out in the Bribery Act 2010. Our focus on doing business responsibly provides the solid foundations required for sustainable growth.

Progress

Marshalls has a clear Anti-Bribery Policy and Code of Conduct which sits alongside our Employee Code of Conduct. We have effectively communicated with employees, suppliers and a range of stakeholders.

2019 priorities

- Maintain our Fair Tax Mark accreditation and be open and transparent about the Group's tax affairs;
- Maintain and enhance our monitoring, training and compliance procedures;
- Maintain our Living Wage accreditation; and
- Deliver against our modern slavery KPIs.

Future goals

- Continue to promote the United Nations Global Compact's commitment to sustainable development and the implementation of the UN's Sustainable Development Goals; and
- To maintain focus to extend the implementation of these goals – especially those goals where Marshalls is well placed to make a significant contribution.

We hold the **Fair Tax Mark** which means that we are paying the right amount of tax, at the right time and in the right place.

Marshalls' sustainable business model

Empowered by our brand values of leadership, excellence, trust and sustainability we work passionately and diligently to uphold the United Nations Global Compact pillars of human rights, labour, environment and anti-corruption. The Group has a sustainable business plan and has set KPIs for the key areas of this plan. It addresses economic, social and environmental aspects of Marshalls' operations.



Sustainability Strategy *continued*

Carbon emissions - disclosure

Marshalls' Energy and Climate Change Policy confirms the Group's commitment to reducing the energy and carbon impact of its business. Our target is to reduce Group absolute CO₂e emissions in line with the UK Government's targets (37 per cent by 2020 and 80 per cent by 2050 from a 1990 baseline). The progress indicates that reductions are in line with the 2020 and 2050 targets.

The Group complied with its legal obligation under the Government's Carbon Reduction Commitment Energy Efficiency Scheme ("CRC") by submitting its Annual Report and surrendering appropriate carbon allowances for the period April 2017 to March 2018 within the time limit imposed by the legislation. The Group continues to be certified to the Carbon Trust Standard. The Group's approach to the Energy Savings Opportunity Scheme ("ESOS") legislation was to define its energy management in compliance with the international standard for energy management ISO 50001, gaining accreditation in November 2015 and maintaining this through 2018. The Group continues to voluntarily disclose data to the "Carbon Disclosure Project", receiving a B rating for its 2018 submission. This disclosure includes the wider carbon management performance over time and also provides an insight for shareholders regarding the Group's energy, carbon and climate change impact management programme.

Marshalls has a mandatory duty to report its annual greenhouse gas emissions ("GHG") under the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2015 and the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2013. Marshalls uses The Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard (revised edition) and the June 2018 Department for Business, Energy and Industrial Strategy ("BEIS") published CO₂e conversion factors to measure its GHG emissions.

The Government consulted on its proposals for a streamlined and more effective energy and carbon framework in 2017 – 18. One of the proposals was for businesses to report on their energy use, so, in advance of a mandatory requirement, Marshalls has decided to voluntarily report its energy use for the last 5 years.

During the year Marshalls committed to the Science Based Targets Initiative to set a target for its carbon emissions. This work is being undertaken with the assistance of the Carbon Trust.

Marshalls acquired the business of Edenhall Holdings Limited in December 2018 with the associated energy and carbon data from this business being excluded from this year's report as it is considered insignificant. It will be included in future reports.

The Group has conducted an audit of its UK fugitive emissions and found these to be 0.59 per cent of the Group total emissions; accordingly these are excluded from the report.

The chart below (left) illustrates the Group's UK absolute CO₂e emissions in tonnes, including transport activities, and energy use in kilowatt hours, between 2014 and 2018.

The chart below (right) illustrates the Group's CO₂e intensity emissions as a proportion of production output, including transport activities between 2014 and 2018.

A number of factors have contributed to the Group's flat carbon emission and decrease in energy consumption during the year including a full year contribution from the acquisition of CPM Group Limited in October 2017. This accounts for an increase in 7 per cent in the GHG emissions, product mix, weather (noting an increase of 2 per cent in degree days when comparing 2018 to 2017), investment in more energy efficient production processes, energy management activities and a reduction in carbonisation of the electricity grid supply.

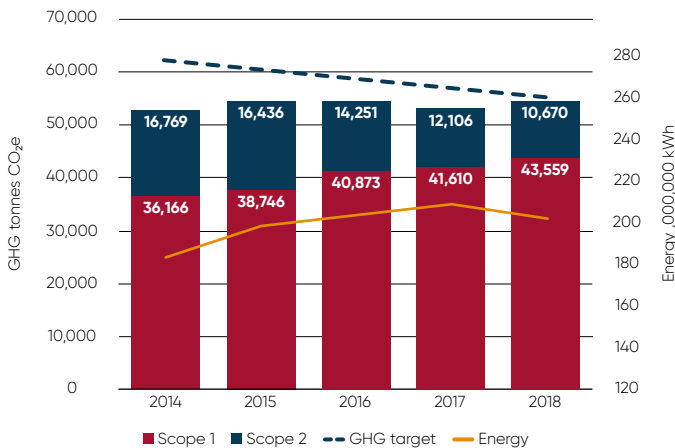
The Group reports that it is responsible for the GHG emissions of Marshalls NV. The CO₂ emissions from Marshalls NV activities (using Belgian Government emissions data) in 2018 were (absolute) 521 tonnes and (intensity) 10.55 kg per tonne production.

Marshalls aims to publish its environmental KPI performance for the financial year in a separate document, the Marshalls Environmental KPI 2019 Report. This will cover the energy performance in more detail, together with reporting of the environmental governance, policies, management and key environmental impact areas such as waste, water and packaging. The Environmental KPI 2019 Report will also detail our work with internationally recognised expert bodies such as the Carbon Trust and the RSPB.

This section of the Annual Report has been audited by a qualified verifier on behalf of BSI. On the basis of the work undertaken this carbon statement is considered to be a fair reflection of the Group's performance during 2018 and contains no misleading information.

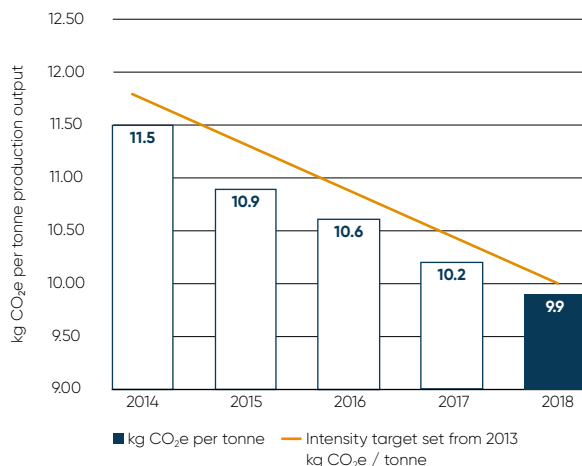
Scope 1 and 2 emissions (tonnes CO₂e)

- Scope 1 43,559 tonnes CO₂e
- Scope 2 10,670 tonnes CO₂e



GHG emissions intensity relative to production

9.9kg CO₂e / t
-3.0%



Employee engagement and development

Our ambition is to recruit and retain the very best people with a wide range of talents, skills and experiences. We have a commitment to investing in employee development, progression and career success. We aim to operate without discrimination and to embrace diversity so that every employee should feel respected for their contribution.

With the advent of a refreshed People Strategy emphasis is on planning for more change in the area of employee engagement. We continue with our long-standing commitment of hosting annual roadshows at every site with the objective of meeting as many of our employees as possible face to face. This provides the Directors and senior management team with an unparalleled opportunity to explain to our employees how the business is performing, how our strategy is working, and what the priorities and objectives are.

We maintained our regular feedback channels and, in 2018, enlisted the support and assistance of an external strategic partner to help us form a detailed engagement plan for 2019. This will focus on employee communications, engaging leaders and staff wellbeing. We continue to be a Living Wage employer underpinning continued commitment to fairness and integrity towards our employees. We have maintained our focus on supporting charitable events across the business and our work with MIND will have raised an overall total of £200,000 over the last 2 years.

The Company's Sharesave employee share scheme (in which over 40 per cent of colleagues invested) delivered significant benefit to employees exercising their options on maturity in December 2018. The Company also operates a Share Purchase Plan to encourage employee participation in the Company's success.

We are focused on building a stronger work environment. Succession management is helping us identify individuals who can be developed to take on bigger or more challenging roles as well as identifying where we need to build new capabilities to meet our strategic goals.

As a business, we are committed to investing in our employees. The corporate intranet contains the Marshalls Learning Zone, which is accessible to all colleagues, and provides an easy route for learning to be accessed on general skills and capabilities. We continually refresh and add to the learning curriculum. We also continue to run 3 leadership development programmes aimed at the development of our emerging and more established leaders. We work with 3 strategic partners, University of Salford, Ashridge Business School and Cranfield School of Management, to ensure we access best practice and external perspectives.

Apprenticeships give employees on-the-job skills and training and help us secure a talent pipeline. We have developed our Apprenticeship Programmes in the last 12 months. During the year, we have also increased the number of employees who are now working towards an apprenticeship qualification to 70. We remain committed to growing these schemes as well as building other methods of increasing our talent pipelines and improving the diversity of our operation.

We continue to maintain strong community connections, particularly in locations near our offices and factories, and we continue to develop closer relations with local schools and colleges in order to encourage young people into the industry as well as the business.

Health and safety

Marshalls is committed to meeting the highest safety standards for all its employees, reinforcing and developing its safety processes, and developing a competent workforce with a view to achieving long-term improvement gains. This remains a key priority for the business. In 2017, the Executive Board agreed a formal 5-year health and safety strategy with set objectives.

The achievement of annual health and safety improvement targets is directly linked to the remuneration of the Executive Directors and senior management, as explained in the Remuneration Report on pages 53 to 72.

The headline target for 2018 was to maintain days lost resulting from workplace incidents at a figure no higher than the 2015 actual result.

The actual results achieved were:

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

The primary target for 2019 will be to achieve an accident rate for the year no higher than the 2015 actual result.

Accident frequency and severity rates (per 1 million hours worked)

	2013	2014	2015	2016	2017	2018
All accidents	65.6	59.1	48.8	49.2	43.4	26.4
All lost time accidents	12.2	7.2	5.1	5.6	4.1	2.2
All RIDDORs	3.6	3.3	1.6	2.3	1.4	1.7
All days lost	114.6	80.7	45.8	38.0	24.6	18.2
Average UK headcount	2,055	2,132	2,237	2,253	2,307	2,640

In 2018 the business successfully gained ISO 45001 accreditation across the UK businesses, being the first in the building products industry to achieve this standard. Other achievements are listed below.

- Integration of the recently acquired CPM business into the Marshalls health and safety management system.
- 100 per cent of all first line supervisors attended and passed the Marshalls health, safety and environmental stage 2 training course.
- Introduced a Mental Health Awareness strategy; this included the training of key individuals in the business to become Mental Health First Aiders to support our employees.
- Introduced and fully implemented across the business the SHE development tool.

In 2019 the main health and safety initiatives will include:

- a programme whereby all senior managers within the business will complete the Marshalls health, safety and environmental stage 3 training programme;
- 65 per cent of all non-supervisory employees will attend and successfully pass the Marshalls health, safety and environmental stage 1 training programme;
- the integration of PD Edenhall into the Marshalls health and safety management system and culture; and
- the development and implementation of a new digital integrated management system.

These initiatives will enhance the already high standard the Company demands in health and safety and take it to a completely new level.



Chair of the Board's Q&A

Defining, promoting and sustaining a good corporate culture is a key priority for the Group

Introduction

I strongly believe that good governance is a core component of corporate success, and that a well-managed governance structure provides real value in shaping the culture of the Group and driving sustainable growth. The Board sets the tone from the top by defining corporate purpose and demonstrating the underlying values and standards that will sustain it. I am committed to maintaining Marshalls' robust corporate governance framework associated with the delivery of the Group's strategy and ensuring the highest standards of behaviour and integrity.



What are your reflections on your first year as Chair of Marshalls' Board?



My first impressions have been positive and, as I have visited our operations and talked to employees, shareholders and other stakeholders, the strength of the Group's core values has been very evident. A key highlight for me has been the Board's focus on culture and the articulation of "The Marshalls Way." Marshalls is a Group with a great culture, a strong focus on sustainability and a desire to engage in business in a responsible way.

Operationally, I think the Group has further opportunities to improve efficiency and to optimise its operations. The focus on customer experience, stakeholder engagement and digital and technological advancement should enable the Group to deliver further strategic growth over the medium term.



A well-managed governance structure provides real value in shaping the culture of the Group and driving sustainable growth."

Vanda Murray OBE
Chair



How important is culture to Marshalls?



Culture is an increasingly important enabling factor for success. Defining, promoting and sustaining a good corporate culture is a key priority for the Group, building on our established core values of leadership, excellence, trust and sustainability. The work that we started in 2017 with external consultants has led to a Group-wide internal consultation programme to help articulate our vision of "The Marshalls Way" of doing business. The objective is to develop methods of successfully embedding this into our operations in a way that can be monitored against pre-determined criteria. Alignment of corporate culture with the Group's purpose, values and strategy, and leading by example on culture, are Board priorities for 2019.



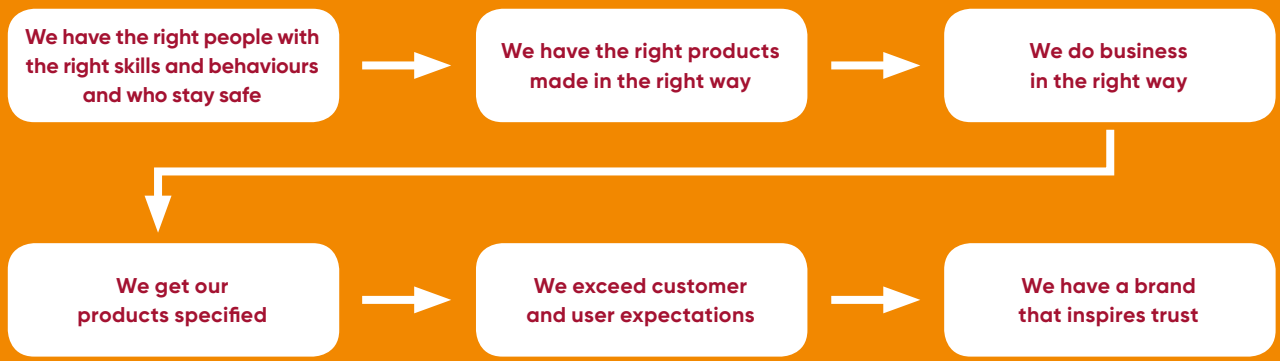
Sustainability is integral to the business. What role does the Board play in managing this?



The Board clearly understands its role in promoting the long-term sustainable success of the Group. Sustainability involves both the generation and protection of value over the long term, and for Marshalls is closely tied to "The Marshalls Way" of doing business. The Group constantly strives to achieve highly sustainable operations, minimising adverse environmental and social impacts while delivering high standards of customer service and health and safety. Sustainability objectives continue to be embedded in management and employee reward schemes. The Board can help through constructive challenge, monitoring, risk assessment and support for well-planned initiatives aligned with strategy.



The Marshalls Way



> Business Model on pages 14 and 15



An internal Board effectiveness review was undertaken this year. What did it identify?



The annual Board evaluation enables the Board to consider its own performance and whether it is delivering value for shareholders and other stakeholders. This year, we updated our questionnaire to include criteria from the 2018 UK Corporate Governance Code. Action points from our review range from the high level (articulating our purpose and values more effectively) to the detailed (establishing smart KPIs to monitor progress against culture and succession planning initiatives and developing the Board's understanding of governance changes through training). The overall conclusion was that the Board worked well and continued to function in an open and collaborative way with a high level of trust and respect.



What engagement with shareholders has the Board had during the year?



The Board seeks to maintain regular dialogue and engages with shareholders throughout the year. There are regular meetings, briefings and updates between the Directors and major shareholders or potential shareholders in order to keep them informed of significant developments and to listen to their views. During 2018 as part of my introduction to the Group I also held one-to-one meetings with a number of our major shareholders, the object of which was to gain feedback on performance and governance matters and to reinforce good communication channels between shareholders and the Chair. I plan to offer this on an annual basis. You can read more about how the Board members engaged with shareholders during 2018 on page 16.



How has the Board approached the increased disclosure requirements for UK companies?



Our reporting is aimed at delivering clarity and visibility to shareholders and other stakeholders in a transparent and understandable way while meeting all regulatory requirements. The Board strives to ensure that it is fully compliant with current codes and good practice in its corporate reporting and receives advice from its auditor and external advisers. This year we have expanded our Remuneration Committee Report to add more information on our wider workforce pay conditions, our CEO to employee pay ratio, our gender pay statistics and our diversity initiatives.



Appropriate design and control around remuneration is one of the key factors in the Code. What is the Board's approach to remuneration policy?



Our Remuneration Policy was approved by shareholders in 2017 and it will be reviewed again in 2020. It is designed to promote behaviours that are aligned with strategy and the long-term success of the Group. Under our Management Incentive Plan, a high proportion of value is represented by shares that are subject to a combined vesting and holding period of 5 years or more. Incentive schemes operating at other levels also include an element of reward based on shareholding. More detail is given in the Remuneration Report on pages 53 to 72. Marshalls is committed to creating an inclusive working environment and to rewarding our employees throughout the organisation in a fair manner. We believe that all employees should be able to share in the success of the Group and we encourage opportunities for share ownership. We aim to achieve clarity, simplicity and proportionality in our remuneration policies and procedures, and we were particularly pleased that Marshalls' 2017 Remuneration Report won a "Building Public Trust" award for transparency in corporate reporting during 2018.



Board of Directors



Vanda Murray OBE

Chair of the Board



Term of office

Appointed as Non-Executive Director and Chair of the Board on 9 May 2018. Also chairs the Nomination Committee.

Length of service

8 months

Skills and experience

Fellow of the Chartered Institute of Marketing with extensive experience of corporate leadership in both executive and non-executive roles with a wide range of UK and international businesses. Previous executive roles include Chief Executive of Blick plc from 2001 until its successful sale to Stanley Works Inc. in 2004 and Managing Director of Ultraframe plc between 2004 and 2006. She is a Non-Executive Director of Manchester Airports Group and Pro-Chancellor and Chair of the Board of Governors of Manchester Metropolitan University, and was also Non-Executive Chair of Fenner plc until May 2018.

External appointments

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



Martyn Coffey

Chief Executive

Term of office

Joined the Company and appointed to the Board in September 2013. Last re-elected in May 2018.

Length of service

5 years 4 months

Skills and experience

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

External appointments

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



Jack Clarke

Group Finance Director

Term of office

Joined the Company and appointed to the Board on 1 October 2014. Last re-elected in May 2018.

Length of service

4 years 3 months

Skills and experience

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

External appointments

None.

COMMITTEE KEY:

- Audit Committee
- Nomination Committee
- Remuneration Committee
- Chair of the Committee
- Independent Director

GENDER COMPOSITION



LENGTH OF SERVICE



EXPERIENCE AND SKILLS





Janet Ashdown

Senior Independent
Non-Executive Director

(A) (N) (R) (I)

Term of office

Appointed in March 2015. Last re-elected in May 2018.

Length of service

3 years 9 months

Skills and experience

Non-Executive Director of SIG plc. Other appointments include Non-Executive member of the Board of the Nuclear Decommissioning Authority (since 2015) and Non-Executive Director of Victrex plc (appointed February 2018). Also nominated for appointment as a Non-Executive Director and Chair of the Corporate Sustainability Committee of RHI Magnesita N.V. at its 2019 AGM. Previous executive experience included 30 years with BP plc, most recently as Director, BP Oil UK Limited, and Head of UK Retail and Commercial Fuels. Between 2010 and 2012 she was CEO of Harvest Energy.

External appointments

Non-Executive Director and Chair of Remuneration Committee of SIG plc and Victrex plc. Non-Executive Director of the Nuclear Decommissioning Authority. Nominated as Non-Executive Director of RHI Magnesita N.V.



Graham Prothero

Non-Executive Director

(A) (N) (R) (I)

Term of office

Appointed in May 2017 and elected in May 2018.

Length of service

1 year 8 months

Skills and experience

Graham Prothero is a Chartered Accountant and is an Executive Director and Group Chief Financial Officer of Galliford Try plc. He is also on the Board of the Jigsaw Trust, a charitable trust. Prior to joining Galliford Try plc in 2013, he was Group Finance Director at leading property developer Development Securities PLC (now U+I), having previously held senior finance positions at Taylor Woodrow, the listed contractor / developer, and at Blue Circle Industries plc. Graham also spent 7 years as a partner in the Real Estate, Hospitality and Construction Group of Ernst & Young LLP.

External appointments

Group Chief Financial Officer of Galliford Try plc.



Tim Pile

Non-Executive Director

(A) (N) (R) (I)

Term of office

Appointed in October 2010. Last re-elected in May 2018.

Length of service

8 years 3 months

Skills and experience

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

External appointments

Senior Independent Director and Chair of Finance and Performance of the Royal Orthopaedic Hospital. Chair of Greater Birmingham and Solihull LEP. Non-Executive Director of the Greater Birmingham Chambers of Commerce and the City of Birmingham Symphony Orchestra.

Andrew Allner

Chair
(retired 9 May 2018)

(N) (R)

Term of office

Joined the Board in July 2003; appointed as Chairman in May 2010. Last re-elected in May 2017 and retired in May 2018. Also chaired the Nomination Committee up to his retirement. Served on the Board for a total of 14 years 9 months (7 years 9 months as Chair). He was independent on his appointment as Chair.

Skills and experience

Significant listed company board experience, as chairman and as a non-executive director. Previous executive roles include Group Finance Director of RHM plc 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 and graduate of the University of Oxford.

External appointments

Non-Executive Director and Chairman of SIG plc, The Go-Ahead Group plc and Fox Marble Holdings plc.

Cathy Baxandall
Group Company Secretary



Corporate Governance Statement

A clear vision of purpose and strategy, aligned with an inclusive culture

2018 highlights

- Recruitment and induction of new Chair
- Successful integration of acquisition with positive profit impact
- Created framework for greater employee and stakeholder engagement
- Strengthened controls to increase resilience

2019 priorities

- Setting strategic direction and vision over the next 3 – 5 years for long-term sustainable success
- Focus on contribution to wider society and development of an inclusive and positive corporate culture
- Embedding policies that support our core values and are aligned with strategic priorities
- Maintaining resilience while pursuing opportunity



Our aim is to create strong foundations for sustainable future success, delivering value for our employees, shareholders and wider society."

Dear Shareholder

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

Leadership, governance and purpose

Good governance depends on good and effective leadership and a healthy corporate culture, supported by robust systems and processes and a good understanding of risk and risk appetite.

We aim to stay abreast of developments in good governance and practice, and have well-developed plans to ensure that we will meet the standards of the UK Corporate Governance Code dated July 2018 by the end of 2019. This includes making sure our purpose, vision and values are clearly articulated, and that we have in place effective channels of engagement with our workforce, shareholders and stakeholders. The Board is involved in setting measurable objectives to promote a healthy corporate culture that is aligned with strategy and delivers on our commitment to "The Marshalls Way" and the principles of sustainability and trust that are the hallmark of our business.

- **Nomination Committee Report** on pages 48 - 49
- **Statement of Directors' Responsibilities** on pages 75 - 76
- **Audit Committee Report** on pages 50 - 52
- **Remuneration Committee Report** on pages 53 - 72



The reports of our Board Committees show how our policies and processes have been applied and developed during the year in a way that remains consistent with our values and strategy, focusing on engagement, operational improvement, and reward and incentive structures, ensuring progress can be measured and monitored appropriately and promoting a business that is resilient, responsible and alive to opportunity.

Board evaluation

During 2018, the Board conducted an evaluation of its performance led by the Chair and Company Secretary. This took into account the 2018 Code principles as well as the 2016 Code in its review of composition, effectiveness, skills and diversity. The Nomination Committee Report comments on the priorities for 2018 following the 2017 evaluation and the extent to which they were achieved. The Board continues to have a good balance of skills and experience, and works very effectively incorporating robust challenge with a high degree of mutual respect and trust. The Board's gender balance has improved. The outcomes of the 2018 evaluation were discussed and an action plan has been identified for the coming year. The Board expects to use an external facilitator for its 2019 evaluation.

Diversity

Marshalls' policy is that no employee or job applicant will be treated less favourably on the grounds of race, colour, nationality, ethnic or national origin, gender (including gender reassignment), pregnancy, marital or civil partner status, sexual orientation, religious belief, age or disability, or on any other grounds which cannot be justified on job related terms. We do not discriminate on grounds of age, gender or background, and we are committed to equality within our business and in our dealings with other organisations. These policy principles are supported by our Code of Conduct.

The Board is committed to achieving diversity in the widest sense. We ensure that briefs to external recruitment agencies and search consultants are aimed at improving diversity ratios and balance both at Board and senior management level and more widely within the business, while also reflecting the changing strategic needs of the Group. We will continue to support positively opportunities for talented individuals regardless of gender, ethnicity, age or social background.

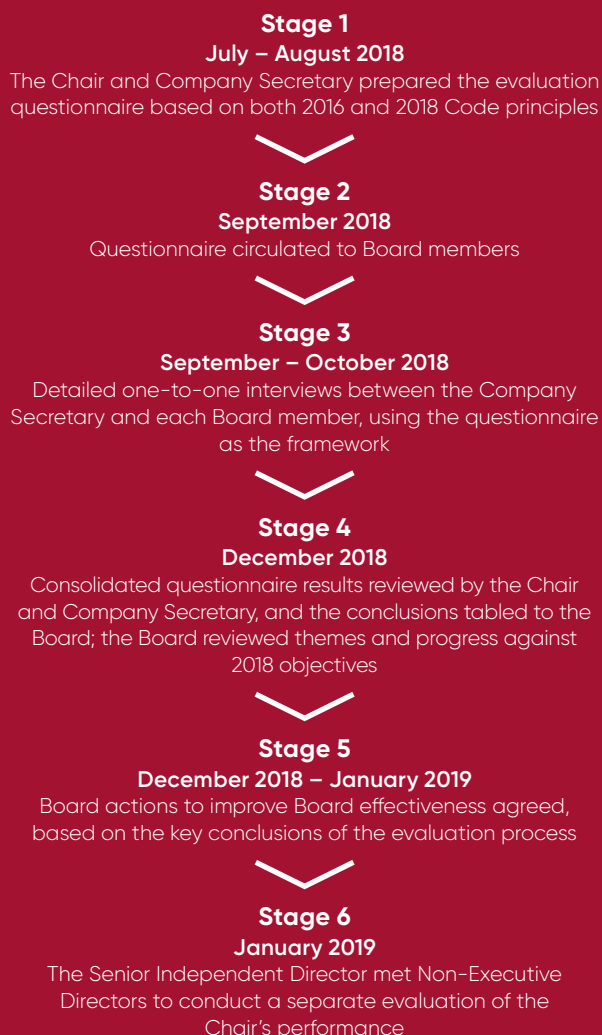
As a Board, we are fully engaged with the initiatives within the business in this area, although we recognise that there is more work to do to achieve true gender balance and greater diversity. The Remuneration Report contains details of our gender ratios and gender pay gap data, and this, together with the Nomination Committee Report, explains in more detail how we implement our policy and how we aim to achieve improvements.

The UK Corporate Governance Code

This Corporate Governance Statement has been prepared in accordance with the principles of the UK Corporate Governance Code dated April 2016 (the "2016 Code"), but also recognises the recommendations in the new UK Corporate Governance Code dated July 2018 which applies to the financial year 2019. The Board has carried out a review of how the 2016 Code principles have been applied, and considers that the Company has complied with the relevant provisions of the 2016 Code throughout the year in all material respects. The Company has also made good progress towards implementing the provisions of the 2018 Code and is supportive of the changes that will result from the application of that new Code.

Board evaluation process

During the year an internal evaluation was conducted.



Responsibility

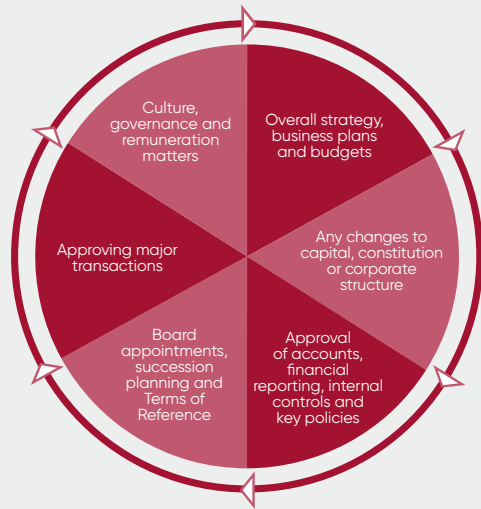
In the opinion of the Directors these Annual Financial Statements present a fair, balanced and understandable assessment of the Group's position and prospects and provide the information necessary for shareholders to assess the Group's position and performance, business model and strategy. The respective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

Corporate Governance Statement *continued*

Role of the Board

The Board currently comprises an Independent Non-Executive Chair, 3 Non-Executive Directors and 2 Executive Directors. Their biographical details are on pages 40 and 41.

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



The Board delegates specific responsibilities to the Audit, Remuneration and Nomination Committees. The Audit Committee Report provides details of the Board's application of Code principles in relation to financial reporting, audit, risk management and internal controls. The Nomination Committee Report reports how Board and senior management composition, succession and development are managed to reflect Code principles. The Remuneration Report explains how the Group's Remuneration Policy has been implemented, and shows Directors' remuneration for 2018. The Remuneration Report also provides gender pay and balance information. Ad hoc Board Committees are established for particular purposes: for example, during 2018 Board Committees were established to approve the allotment of shares under the 2015 Sharesave scheme, to approve certain acquisition transactions and to approve preliminary and half yearly results.

Day-to-day management and the implementation of strategies agreed by the Board are delegated to the Executive Directors. The Group's reporting structure below Board level is designed so that decisions are made by the most appropriate people in a timely manner. Management teams report to members of the Executive Committee (9 senior managers, including the 2 Executive Directors). The Executive Directors and other Executive Committee members give regular briefings to the Board in relation to business issues and developments. Clear and measurable KPIs are in place to enable the Board to monitor progress. These policies and procedures enable the Board to make informed decisions on key issues including strategy and risk management.

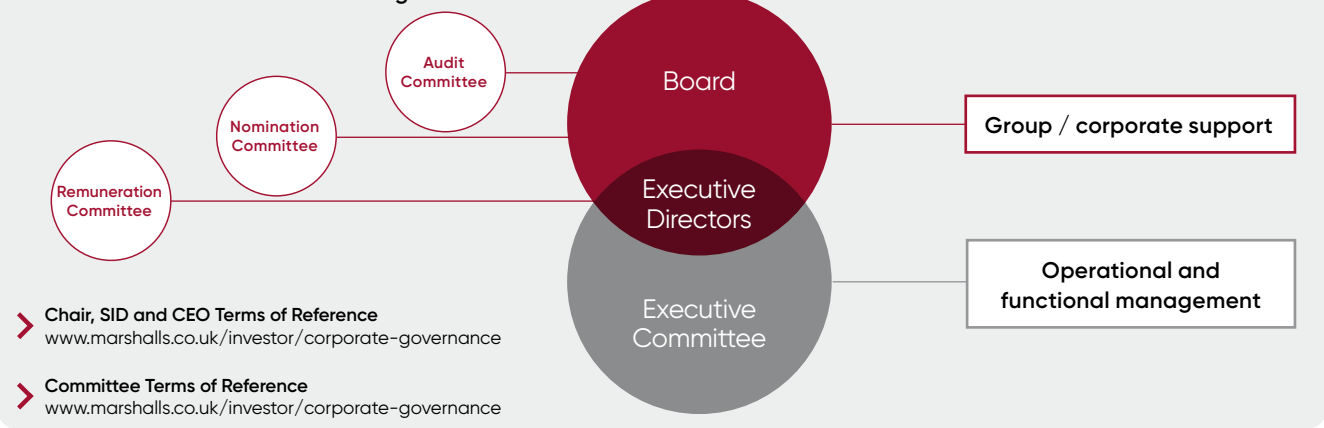
Board meetings and attendance*

Key = ● Present ○ Absent	Board	Audit Committee	Remuneration Committee	Nomination Committee	Briefing topics 2018
Andrew Allner (Non-Executive)+	●●●○○○○	–	●●○○○	○○	
Vanda Murray OBE (Non-Executive)+	○○●●●●●	–	○○●●●	○○	Health, safety and environment
Janet Ashdown (Non-Executive)+	●●●●●●●	●●●●	●●●●●	○○	Emerging businesses
Jack Clarke	●●●●●●●	–	–	–	Sales and service delivery
Martyn Coffey	●●●●●●●	–	–	–	Market trends
Graham Prothero (Non-Executive)	●●●●●●●	●●●●	●●●●●	●●	Cyber security and innovation
Tim Pile (Non-Executive)	●●●●●●●	●●●●	●●●●●	●●	Acquisition integration updates
					Manufacturing operations
					HR strategy

* The Chief Executive and the Finance Director normally attend Audit Committee meetings, and the Non-Executive Directors also meet the Auditor in private. The Chief Executive attends Remuneration Committee meetings by invitation. The Company Secretary attends Board Committee meetings as Secretary. Board members also participate in site visits, training sessions and events such as the Group's annual management conference.

+ Andrew Allner attended all scheduled meetings prior to his retirement except for Nomination Committee meetings relating to the appointment of his successor. Janet Ashdown was conflicted and could not attend these Nomination Committee meetings. Vanda Murray attended all scheduled meetings following her appointment.

Interaction between Board and management bodies



Roles and division of responsibilities

There is a clear division of responsibilities between the Chair and the Chief Executive, each of whom has annually reviewed written Terms of Reference.

The Chair leads the Board and is responsible for its overall effectiveness, ensuring adequate time is available for discussion of all agenda items, in particular strategic issues, promoting openness and debate, ensuring all Directors, particularly the Non-Executive Directors, are able to contribute, and facilitating a constructive relationship between the Executive and 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 Director provides a sounding board for the Chair and also acts as an intermediary for other Directors and shareholders.

The Chair and other Non-Executive Directors were independent on appointment, and the Board has determined each of the Non-Executive Directors to be independent in character and judgement in accordance with principle B.1.1 of the 2016 Code and Section 2 Provision 10 of the 2018 Code. At least once a year the Chair meets the Non-Executive Directors without the Executive Directors being present. The Non-Executive Directors also meet annually without the Chair to appraise the Chair's performance.

Any concerns raised by Directors about the running of the Company or a proposed action would be recorded in the Board minutes. If a Non-Executive Director did have any such concerns on resignation the Chair would invite that Director to provide a written statement for circulation to the Board.

Culture and engagement

There has been good progress in defining our desired culture and identifying the key actions designed to promote and embed "The Marshalls Way", with the Board being involved in setting objectives and reviewing feedback. Janet Ashdown is the Director designated to act as Board representative in relation to our workforce engagement programme. The Group has developed a framework to improve the way in which employee views are communicated to the Board, how employees engage with values and culture, and how we align strategy with our workforce development and reward policies, which the Board expects to review and monitor throughout the year using agreed KPIs. On joining, the Chair met major shareholders to canvas views on governance and performance and will continue to seek opportunities to engage with shareholders. During 2018 the Group also engaged with other stakeholders such as customers and suppliers through its in-depth customer experience review and ethical supply chain initiatives.

Conflicts of interest

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

Board composition, commitment and election of Directors

The Nomination Committee leads the process for Board appointments and makes recommendations to the Board. We believe our Board is well balanced with an appropriate combination of skills, experience and knowledge. The process for appointments, evaluation of the Board and individual Directors, succession planning and diversity is commented on further in the Nomination Committee Report.

On appointment, the expected time commitment for Board members is made clear. The Chair and other Non-Executive Directors disclosed their other commitments prior to appointment and agreed to allocate sufficient time to the Company to discharge their duties effectively and ensure that these other commitments do not affect their contribution. The current commitments of the Chair and other Directors are shown on pages 40 and 41.

The Company's Articles of Association contain powers of removal, appointment, election and re-election of Directors and provide that at least one-third of the Board must retire at each Annual General Meeting and each Director must retire by rotation every 3 years. In practice, all Non-Executive Directors and Executive Directors stand for re-election at every Annual General Meeting, and all current Directors will stand for re-election or election at the 2018 Annual General Meeting. The Directors' biographical details on pages 40 and 41 show their term of appointment and length of service on the Board.

Corporate Governance Statement *continued*

Board induction, development and support

There is a full formal induction programme for new Directors. New Directors receive an induction pack incorporating the Company's constitutional and governance documents, Group policies and other key information. Induction training to familiarise Directors with the "virtual boardroom" resource and other Group systems and programmes is also provided. On joining, there is a programme of site visits at which the new Director meets site-based staff, including the Executive Committee and other senior managers. All Non-Executive Directors are offered training as part of the Group's health and safety programme. Other tailored training may be arranged, for example to update knowledge of developments in regulatory compliance and Director responsibilities. A new Director will meet the Chair and other Non-Executive Directors in one-on-one sessions; they will have meetings with key management, and they are also expected to avail themselves of opportunities to meet external advisers and shareholders to gain a full understanding of the business.

Directors attend external courses and seminars as appropriate to maintain and develop their Board competencies. The Board meeting programme includes a range of topics of relevance to the business, with opportunities for in-depth questioning and discussion. Details of senior management presentations during 2018 are on page 44. Separate meetings between Non-Executive Directors and senior management on matters of particular interest are arranged; for example, Janet Ashdown and the Group HR Director held meetings in relation to employee engagement and Tim Pile provided expertise in relation to Group digital marketing strategy. Training needs are identified through the Board evaluation process and through individual one-to-one reviews between the Directors and the Chair.

Directors have access to the advice and services of the Company Secretary and may rely on their being impartial and independent. The Company Secretary is responsible for ensuring that Board procedures are complied with and, through the Chair, advises the Board on corporate governance matters. The appointment or removal of the Company Secretary are matters for the Board as a whole.

There is an approved procedure for all Directors to take independent professional advice at the Company's expense. Board Committees have sufficient resources to undertake their duties, and may appoint external advisers when they deem it appropriate.

Indemnities and insurance

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

How we assess our performance, prospects and viability

The Group has a comprehensive financial review process, including detailed annual budgets, business plans and regular forecasting. There are a range of performance indicators which are tracked by management on a daily, weekly and monthly basis, 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.



We maintain an open and regular dialogue with shareholders and stakeholders."

At each regular Board meeting the monthly financial results are reviewed, taking account of performance indicators and the detailed annual business plan and budget. The Board also considers forward trends and performance against other key indicators, including areas where performance departs from forecasts, and contingency plans. The Board reviews medium and long-term strategy on a regular basis and meets at least annually with the Executive Committee to review strategy. Individual members of senior management meet and present to the Board regularly on current business and strategic issues.

In this way, the Board assesses the prospects of the Group using all the information at its disposal, and considering historical performance, forecast performance for the current year and longer-term forecasts over the 3-year business planning cycle as appropriate. In approving these accounts the Board has considered these matters in detail in order to be able to give the Viability Statement on page 24. The Board has adopted the going concern basis in preparing these Financial Statements and 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 has responsibility for determining the nature and extent of the principal risks the Company is willing to take to achieve its strategic objectives, and for the Group's internal control framework. The Board has a well-established procedure to identify, monitor and manage risk, and has carried out reviews of the Group's risk management and internal control systems and the effectiveness of all material controls, including financial, operational and compliance controls. The Strategic Report comments in detail (pages 23 to 27) on 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. The Board has conducted a rigorous assessment of these risks, particularly operational risks that might affect the Group's viability. The Board's risk review also incorporates some stress testing, by envisaging scenarios that might arise during the financial year and / or the planning cycle, and considering, with financial impact modelling where appropriate, the likely effect on the business and its prospects. The Audit Committee Report on pages 50 to 52 describes the internal control system, how the Board assures itself of the independence and effectiveness of internal and external audit functions and how they are managed and monitored. The Board acknowledges that such systems are designed to manage, rather than eliminate, the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.



Shareholder relations

The Board places great emphasis on communication and engagement with the Company's shareholders. The Chief Executive and the Finance Director meet regularly with major shareholders to discuss the Group's performance, strategic issues and shareholder investment objectives, arrange site visits for investors, and provide regular and comprehensive feedback to the Board. The Board also receives copies of analysts' and brokers' briefings. During 2018, there were 80 investor meetings, with 752 of the Group's institutional shareholders having met or engaged with Executive and / or Non-Executive Directors in the past 12 months.

The Chair met a number of major shareholders following her appointment, and expects to establish a programme of regular meetings with shareholders to gain understanding of their views on governance and performance. The Senior Independent Director is also available to meet shareholders separately if requested. Chairs of Committees would expect to meet shareholders to consult on significant matters related to their areas of responsibility, for example in relation to preparation of the Group's 2020 Remuneration Policy.

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 Year Reports, together with the Marshalls website, are substantial means of communication with all shareholders during the year. There has been no significant voting against recommended resolutions at recent AGMs, and the Board would wherever practicable seek to ensure that shareholder views on any unusual or potentially controversial proposals were canvassed and incorporated prior to a vote; however, the Board expects to respond to any significant vote against a recommended resolution, should this arise, in accordance with the 2018 Code principles.

Annual General Meeting

The Notice of Annual General Meeting is despatched to shareholders, with explanatory notes or a circular on items of special business, at least 20 working days before the meeting. The Company's practice is to propose separate resolutions on each substantially separate issue, including a resolution on the Annual 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 Audit, Remuneration and Nomination Committee Chairs, 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 form provides 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 voting results make it clear that a "vote withheld" is not a vote in law and is not 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.

Vanda Murray OBE

Chair

14 March 2019

Investor communications strategy throughout the year

2018

March

- Full year results presentation
- Full year results roadshows

May

- Annual General Meeting

June

- Site visits with key stakeholders

August

- Interim results presentation
- Interim results roadshow

October

- Investor roadshow

2019

January

- Shareholder meetings

Throughout year

- Regular updates to corporate website
- Liaison with stakeholders

80 meetings
with current or prospective
shareholders

752
of the Group's institutional
shareholders were represented
at investor meetings

Nomination Committee Report

A well-managed transition

2018 highlights

- Successful recruitment of new Chair to succeed Andrew Allner
- Formal succession plan adopted and tested against the Group's strategic plans for the next 5 years
- Terms of Reference reviewed and updated to reflect 2018 Code

2019 priorities

- Refresh Board membership in line with strategic needs through recruitment of an additional Non-Executive Director to succeed Tim Pile
- Maintain policies for recruitment and succession planning that are designed to reinforce the Company's desired values and culture

Members and attendance

Meetings

Vanda Murray OBE – Chair	○ ○
Janet Ashdown – SID	○ ○
Graham Prothero	● ●
Tim Pile	● ●

Andrew Allner was a member of the Nomination Committee until 9 May 2018 but did not attend any meetings as they related to his successor's appointment.

➤ **Link to TOR and Nomination Policy**
www.marshalls.co.uk/investor/corporate-governance

“
 Our Board composition
 supports our strategy.”

Dear Shareholder

I am pleased to report to shareholders on the main activities of the Committee and how it has performed its duties during 2018. I chair Nomination Committee meetings, but would not do so where the Committee was dealing with my own re-appointment or replacement as Chair.

The performance of the Committee was evaluated as part of the Board evaluation process in 2018 described on page 43. The Committee Terms of Reference were reviewed and updated to take account of the UK Corporate Governance Code published in July 2018 (the “2018 Code”), which applies from 1 January 2019.

During the year the Nomination Committee held 2 scheduled meetings. Additional meetings and discussions in connection with succession planning and recruitment were held by telephone. As both meetings were held before my appointment, I did not attend. Janet Ashdown was conflicted from attending these meetings.

Recruitment and succession planning

The Committee maintains a formal succession plan and in accordance with this plan the Board's membership is reviewed at least on an annual basis. The policy of the Committee is that recruitment and succession should reflect the changing strategic needs and objectives of the Group, both now and into the future, and that its composition should contribute to the Company's desired values and culture. In this context, we are wholly committed to achieving diversity in its widest sense in the composition of the Board and senior management. The Committee's Terms of Reference incorporate the 2018 Code principles in promoting diversity of gender, social and ethnic backgrounds, and cognitive and personal strengths in the selection of candidates. Our Nomination Policy sets out how these principles will be applied for Board appointments.



The Nomination Committee's main task during 2018 was completing the recruitment of a Chair to replace Andrew Allner, who retired as Chairman in May 2018. This process was led by Tim Pile supported by The Inzito Partnership, an independent search consultant not otherwise connected with the Company. The selection criteria were objective and detailed and took account of the Committee's policies and recruitment philosophy. I was pleased to be invited to join the Board in early 2018, and my appointment was confirmed on Andrew Allner's retirement following the Company's Annual General Meeting in May 2018. On joining, I received full induction training and have followed a programme of site visits to familiarise myself with the business. I have also met many of our major shareholders and will continue to seek opportunities to develop the shareholder dialogue. I am grateful to Andrew Allner and my fellow Directors for their welcoming support during the handover.

Non-Executive Directors, including the Chair, 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. Our framework for succession planning is designed to phase future recruitment so that the composition of the Board can be refreshed whilst ensuring continuity. With this in mind, it is proposed to extend Tim Pile's appointment (which would normally expire in October 2019) to May 2020, to give sufficient time for the Committee to complete the recruitment of a successor and to provide continuity for a further period while they familiarise themselves with the business. The Committee considers that Tim Pile remains a highly effective member of the Board who brings valuable insights, skills and experience and whose independence of thought and judgement is not at risk of being affected by the extension of his term of appointment for an additional 7 months.

The Committee also keeps under review the leadership needs of the Company and works with management to ensure that the Company has strong succession planning processes below Board level for the development of internal talent and potential succession to the Board that are fully reflective of our policy principles of diversity, gender equality, objectivity and fairness. Having established a clear policy commitment, the Board will be developing its work to support and monitor progress against the Group's HR diversity and inclusivity objectives.

Evaluation and re-appointment of Directors

Each Non-Executive Director was, on joining, provided with a detailed description of his or her role and responsibilities, and received a detailed business induction. All Directors have an annual one-to-one development review meeting with the Chair to appraise performance, set personal objectives and discuss any development and training needs to enable them to continue to add value to the Board. These one-to-one assessments were carried out in 2018 by Andrew Allner, and similar one-to-one appraisal meetings are scheduled for early 2019 between the Chair and individual Directors.

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

It is the Company's policy that Executive Directors can only hold 1 external 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 40 and 41.

My other commitments were reported on joining the Company's Board, and I retired from the Board of Fenner plc in May 2018. There have been no other changes to my other commitments during the year, which are listed on page 40.

Governance

The Committee has acted throughout 2018 in accordance with the principles of the UK Corporate Governance Code issued in April 2016 (the "2016 Code") in the application of its succession plans and policies. In addition, the Committee has assessed its effectiveness during 2018 against both the 2016 Code and the 2018 Code, and measured its performance against the governance principles of both Codes as part of the annual Board evaluation process. The evaluation concluded that the Committee had been successful in securing a good mix of skills and experience in the composition of the current Board. The framework for the refreshment of skills, experience and diversity to support the needs of the business and its stakeholders in the future is transparent and well understood.

Vanda Murray OBE

Chair of the Nomination Committee

14 March 2019

Audit Committee Report

Planning for the future

2018 highlights

- Review of the significant financial judgements during the year and the preparation of the 2018 Financial Statements. Areas of focus in 2018 were inventory provisioning, accounting for the acquisition of Edenhall and revisions to provisional fair value adjustments on the CPM acquisition in 2017
- Provided assurance to the Board on whether the 2018 Annual Report and Financial Statements, taken as a whole, is fair, balanced and understandable and reviewed the forecasts and sensitivity analyses underlying the Group's going concern assessment and Viability Statement
- Detailed review of the outcomes of cyber security audits undertaken by KPMG LLP during 2018 in order to improve cyber security controls and to ensure that IT controls remain appropriate and robust
- Commissioned internal audit reviews by KPMG LLP in relation to inventory, treasury management, supplier payments and expenses, and the integration of CPM. Update reviews were undertaken in relation to the Group's General Data Protection Regulation ("GDPR") and anti-bribery compliance, controls and procedures. In total, 8 individual internal audit reviews were undertaken

2019 priorities

- Continue to oversee the significant financial judgements made by management
- Review the delivery of the external and internal audit, to monitor progress and to monitor changes in external regulatory environment and best practice
- Assess and improve cyber security controls and ensure that IT controls remain appropriate and robust. This will involve further cyber security audits
- Review the findings from internal audit reviews undertaken by KPMG LLP and monitor the implementation of recommendations made in these reports and the status of progress made against previously agreed actions. There are a further 8 individual internal audit reviews planned for 2019, including procurement, rebates, logistics and fleet management, health and safety processes and controls and employee codes of conduct, including specific focus on awareness and monitoring of whistleblowing

Dear Shareholder

In this report I set out the Audit Committee's objectives and responsibilities and also explain the activities undertaken during 2018 and the priorities for 2019. This report, which is part of the Directors' Report, explains how the Audit Committee has discharged its responsibilities during 2018.

How the Audit Committee operates

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

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

Effectiveness of the Audit Committee

During the year an internal evaluation of the Committee's performance was undertaken as part of the Board evaluation process. This is explained in detail in the Corporate Governance Statement on pages 42 to 47. The review found the Committee to be effective and well run. No areas of concern were highlighted during this review.

The Chair of the Committee is a Chartered Accountant and the Board is satisfied he is independent and has recent and relevant financial experience as required by the Code. Other members also have relevant sectoral and financial experience. Their biographical details are on pages 40 and 41.

Members and attendance

	Meetings
Janet Ashdown	● ● ● ●
Graham Prothero	● ● ● ●
Tim Pile	● ● ● ●

Terms of Reference

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The Committee continues to ensure the Group has an effective system of risk management and internal control."



Financial reporting

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

IFRS 16 has been adopted from 1 January 2019 and has required all leases to be recognised on the Group's balance sheet. The Group established a project team during 2017 to prepare for transition and to assess the impact of the new standard. New systems and operating procedures have been introduced and a major exercise has been undertaken during 2018 to obtain all the necessary data requirements. The Committee has been monitoring the progress of the project during the last year and has been assessing the financial impact. Key priorities for the Committee have been system selection, the integration of authorisation and data processing procedures and controls within the Group's core systems and the adequacy of controls over data accuracy and completeness. Further information about the financial impact for the Group is included in Note 1 on page 91.

Risk management and internal control

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

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

The Group has an established internal control framework, which governs the internal financial reporting process of the business, with checks and balances built into the system that are designed to reduce the likelihood of material error or fraud.

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

The Audit Committee has carried out an assessment of the effectiveness of the Group's risk management and internal control system, covering all material controls including its financial, operational and compliance controls and risk management systems for the year to 31 December 2018.

The Group maintains a written Risk Register that identifies the Group's key risk areas, the probability of these risks occurring and the impact they would have on the Group. Each risk has a designated control owner and, against each risk, the effectiveness of the controls that exist to manage and, where possible, minimise or eliminate those risks are also listed. The Risk Register process identifies areas for action and independent audit assessment in order to test the effectiveness of the Group's risk control systems. Information relating to the management of risks and any changes to the assessment of key risks is regularly reported to the Board, and the Risk Register is updated to reflect changes. To the extent that any failings or weaknesses are identified during the review process, appropriate measures are taken to remedy these. The key risks affecting the Group, how they relate to strategy and how they changed during the year, together with a description of the controls and mitigation associated with such risks, are highlighted in the Strategic Review on pages 23 to 27.

External audit, auditor independence and objectivity

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

The Committee has adopted policies to safeguard the independence of its external auditor. It is the policy of the Company that the external auditor should not provide non-audit services other than those of a "de minimis" value of less than £5,000 in aggregate in any financial year. Any other non-audit services require the specific approval of the Committee. Where the Committee perceives that the independence of the auditor could be compromised, the work will not be awarded to the external auditor. Details of amounts paid to the external auditor for audit and non-audit services in 2018 are analysed in Note 3 on page 101. Other than a specific "cyber review" which was approved by the Committee and the auditor's half yearly review of Marshalls plc, no amounts were paid for non-audit work. The aggregate amount paid to other firms of accountants for non-audit services in the same period was £387,000 (2017: £368,000).

Internal audit

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

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

During the year, in addition to the regular internal control process, KPMG LLP conducted specific reviews on cyber security risk, inventory, treasury management, supplier payments and expenses and the integration procedures, processes and controls following the acquisition of CPM.

The Committee is pleased to report that, although the wider risk of cyber fraud continues to increase, no significant failings or weaknesses were identified during the year. There were no incidences of fraud that significantly affected the Group's business during 2018. A rolling programme of cyber security awareness training is undertaken and external presentations were made to selected groups of employees by specialists from the Group's banking partners.



Audit Committee Report *continued*

Significant issues related to the Financial Statements

When reviewing the annual and half yearly results, the Committee exercises its judgement in relation to matters drawn to its attention by the Group Finance Director from the internal audit function, the Risk Committee and the Group's external auditor. The significant areas considered by the Committee for 2018 are summarised below. In each case the Committee considered the findings of the external auditor and concurred with the assessments and conclusions made by management:

- **The risk of management override of controls** – management's assessment of the control framework including authorisation controls and segregation of duties. The Committee considered those areas where management applies judgement in determining the appropriate accounting and discussed this with the external auditor. The external auditor presented its findings and its use of data analytics.
- **Inventory provisioning** – management's assessment of the appropriate level of provisioning against inventory obsolescence. The gross levels of finished goods inventory held and the provisions recorded against obsolescence and in respect of items that might be sold at lower than cost were reviewed by the Committee. The review included meetings with operational management to discuss the inventory provisioning strategy. The external auditor presented its findings with regard to the audit testing over inventory valuation.
- **Revisions to the provisional fair value adjustments on the CPM acquisition in 2017** – management's assessment of the process for identification and revised valuation of fair value adjustments. The Committee considered those areas where management judgement was applied. The external auditor tested significant revisions to provisional fair value adjustments by reference to supporting evidence.
- **Acquisition accounting in relation to the acquisition of Edenhall** – management's assessment of the appropriate accounting treatment and the exercise of judgement in the identification and valuation of intangible assets within the acquired business. The Committee considered those areas where management applied judgement in determining the appropriate accounting treatment and discussed this with the external auditor. The external auditor presented its findings with regards to the audit work undertaken to assess this area.

Fair, balanced and understandable

The Committee has considered whether, in its opinion, the 2018 Annual Report and Financial Statements is, taken as a whole, fair, balanced and understandable, and whether it provides the information necessary for shareholders to assess the Group's position, performance, business model and strategy. In making this assessment, the Committee has advised the Board in relation to the statement required by the UK Corporate Governance Code.

The Committee has concluded that the disclosures, and the process and controls underlying their production, were appropriate to enable it to determine that the 2018 Annual Report and Financial Statements is fair, balanced and understandable.

Effectiveness of the external audit

An annual review of external audit effectiveness was undertaken by the Committee in 2018. The conclusion of the review was that the external auditor had conducted a comprehensive, appropriate and effective audit. Communication, at all levels, had been open and constructive and areas where the external auditor could work more effectively, in respect of each phase of the audit, were identified.

Effectiveness of the internal audit

An annual review of internal audit effectiveness and of the performance of KPMG LLP as independent internal auditor was undertaken by the Committee in 2018.

The conclusion was very positive and was that the current internal audit process continues to be an efficient and effective means of managing the internal audit function. The Committee has considered, with KPMG LLP, how this process can be developed further and further improvements have been reflected in the 2019 plan.

Whistleblowing and bribery

The Audit Committee monitors on behalf of the Board any reported incidents under the Serious Concerns Policy (our Whistleblowing Policy), which is available to all employees. This policy is displayed on operating site noticeboards and on the Company's intranet, and sets out the procedure for employees to raise legitimate concerns about any wrongdoing without fear of criticism, discrimination or reprisal. The Committee is satisfied that arrangements are in place for the proportionate and independent investigation of such matters and for appropriate follow-up action. No matters of serious concern were raised under the policy during 2018.

The Company is committed to a zero-tolerance position with regard to bribery, made explicit through its Anti-Bribery Code and supporting guidance on hospitality and gifts. The policy and procedures are published on the Company website and displayed on operating site noticeboards. Online training is available to all employees to reinforce the Anti-Bribery Code and procedures, and classroom-based training sessions are also held throughout the year. During 2018, CPM employees received their training as a key part of their integration. All employees in decision-making roles with potential exposure to bribery risk have completed the training and must self-certify annually that they continue to comply. There is a maintained register of employee interests and a gifts and hospitality record. The internal audit review programme included an update review of the adequacy of the Company's procedures in relation to anti-bribery controls and procedures.

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

Graham Prothero
Chair of the Audit Committee

14 March 2019



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

2018 highlights

- Strong Group performance resulting in achievement of Executive incentive targets, with significant element of variable award in shares or share equivalents
- Committee Terms of Reference, procedures and evaluation measures updated to incorporate the principles set out in the UK Corporate Governance Code issued in July 2018 (the "2018 Code") which applies for 2019
- Improved monitoring of gender pay gap statistics and the Company's action plan to address the gap
- Review of current Remuneration Policy and its application for 2019 to ensure it remains appropriate
- Executive Director remuneration packages for 2019 set, having taken into account the pay and benefits of the wider workforce and the comparator group, and review extended to senior management remuneration below Board level
- Incentive scheme targets set for 2019 using stretching financial and non-financial measures designed to align with strategic objectives and shareholder interests
- Development of the remit and supporting framework for Janet Ashdown (the Non-Executive Director responsible for employee engagement) to engage with employees and stakeholders on pay and benefits during the year

2019 priorities

- Consult with shareholders and other stakeholders in relation to 2020 Policy
- Monitor the success of the 2019 action plan for engagement with employees and other stakeholders on remuneration
- Review alignment with wider workforce pay policies and incentives
- Review the action plans to reduce scope for gender pay gaps and progress against measurable KPIs
- Seek shareholder approval to extend the Management Incentive Plan to 2020 to align the incentive plan with the Remuneration Policy under which it operates, and which is due to be tabled for shareholder approval at the 2020 AGM

Members and attendance

	Meetings
Janet Ashdown	● ● ● ● ●
Andrew Allner (retired 9 May 2018)	● ● ○ ○ ○
Vanda Murray OBE (appointed 9 May 2018)	○ ○ ● ● ●
Tim Pile	● ● ● ● ●
Graham Prothero	● ● ● ● ●

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



Remuneration Committee Report *continued*

Dear Shareholder

I am writing to you as the Chair of Marshalls' Remuneration Committee and am pleased to set out in this report how the Committee has carried out its objectives and responsibilities during 2018.

This report is divided into two: an introduction and at a glance "summary" of our activities and our Annual Remuneration Report, showing how our Policy was applied during the year and outcomes for our executives.

Business performance

The Group's KPIs monitor progress towards the achievement of the Group's objectives. All of the Group's strategic KPIs have moved forward strongly during 2018, as shown on pages 20 and 21 of the Strategic Report. The Company operates a single long-term incentive plan, the Management Incentive Plan ("MIP"), which focuses directly and indirectly on aligning the reward of Executive Directors and senior management with delivery of these KPIs. EPS, net debt, customer service and health and safety are the measures expressly used to determine awards under the MIP.

Outcomes for 2018

Page 56 sets out the performance conditions, targets set, level of satisfaction and corresponding percentages of salary earned under the MIP for 2018 by the Executive Directors. Martyn Coffey (CEO) received an MIP award of 245 per cent of salary (maximum 250 per cent) and Jack Clarke (Group Finance Director) received a MIP award of 245 per cent of salary (maximum 250 per cent).

Discretions

The Committee determined that the incentive outcomes for 2018 based on the application of the MIP Rules and performance conditions were in line with the overall performance of the business and did not exercise its discretion to alter the outcomes.

The Committee did not adjust any incentive outcome to account for share price appreciation over the vesting period, having concluded that the value delivered was commensurate with performance over the period. The consideration of performance against non-financial ESG measures is integrated into our review of overall remuneration.

Wider workforce considerations

Marshalls is committed to creating an inclusive working environment and to rewarding its employees in a fair manner. In making decisions on executive pay, the Remuneration Committee considers wider workforce remuneration and conditions. We believe that employees throughout the Company should be able to share in the success of the Company. For example, under our tax-advantaged 2015 Sharesave Plan, options became exercisable from December 2018 at a price of £2.91 per share, a significant discount against the market price. 684 employees have either exercised or remain able to exercise their Sharesave options under the scheme. We also operate a Share Purchase Plan allowing employees to invest a monthly amount in Marshalls' shares. We are proud to be a Living Wage employer. Marshalls has worked closely with external organisations to evaluate our business and supply chain against the principles now embodied in the Modern Slavery Act 2015 to eliminate slavery in all its forms. This report includes information on our wider workforce pay conditions, our CEO to employee pay ratio, our gender pay statistics and our diversity initiatives. The Committee's role in monitoring and reporting on such issues is key to the promotion and development of our values and culture.

Compliance with the new UK Corporate Governance Code

We have considered the current compliance of our Remuneration Policy and its application with the 2018 Code which applies for financial years beginning on or after 1 January 2019. While we are not required to comply with the new Code for the current year being reported on, the following table demonstrates the extent to which we are already substantially compliant with the 2018 Code:

Key remuneration element of the code	Company position
5-year period between the date of grant and realisation	Element B of the MIP meets this requirement.
Phased release of equity awards	The MIP ensures the phased release of equity awards.
Discretion to override formulaic outcomes	The Remuneration Policy approved by shareholders at the 2017 AGM contains these provisions.
Post-termination holding requirement	It has been the practice to apply post-vesting holding requirements in respect of Directors' incentive scheme shares, notwithstanding an earlier termination date; however, the 2017 Policy does not specify a minimum post-termination holding requirement encompassing all shares. The Committee will continue to monitor evolving market practice.
Pension alignment	It is the Committee's current intention to bring new Executive Directors in at a pension contribution aligned with the average employee contribution. The Committee does not intend to change the contractual provision for existing Executive Directors.
Extended malus and clawback	The current malus and clawback provisions of the MIP already exceed the best practice guidance associated with the new Code.



Board changes

Vanda Murray joined the Committee on her appointment as Non-Executive Chair of the Board following the 2018 AGM. Vanda is an experienced non-executive director and has served as a member or chair of a number of other remuneration committees. Her experience is welcomed.

Shareholders

There was no express need to consult with shareholders during 2018, given that there have been no material changes to policy or incentive scheme structure since the 2017 AGM at which the Remuneration Policy received 96 per cent shareholder support. The Policy approved at the 2017 AGM took into account the views of the Company's key shareholders. As Remuneration Committee Chair I remain willing to engage with shareholders on remuneration matters, and will be arranging, with Vanda Murray, to meet and consult with our major shareholders prior to the Policy review in 2020.

I would like to thank our shareholders for their continued support during the year demonstrated by the vote at the 2018 AGM. I will be available at the Company's Annual General Meeting on 15 May 2019 to answer any questions in relation to this Remuneration Report.

Janet Ashdown

Chair of the Remuneration Committee

14 March 2019

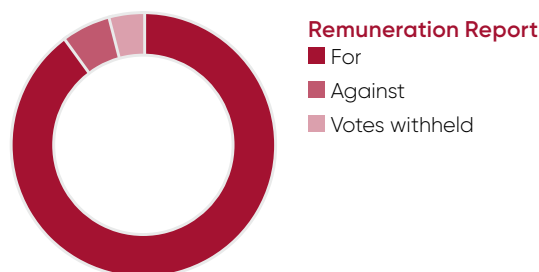
External advisers

The Company re-appointed external remuneration advisers PricewaterhouseCoopers LLP ("PwC") after a tender process in 2017. 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 engagement are available on request from the Company Secretary. PwC also provided advice to the Company during the year in relation to general consulting services. 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 2018 included assistance in the preparation of the 2018 Remuneration Committee Report, benchmarking of total remuneration in respect of the Company and its comparator group, and general advice on remuneration trends, regulations and best practice. The amount paid to PwC in respect of remuneration advice received during 2018 was £52,000 (2017: £40,000).

Our Remuneration Report has been prepared in accordance with the Companies Act 2008 and Schedule 8 of the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013. It meets the requirements of the UK Corporate Governance Code issued in April 2016 and anticipates the requirements of the new Code issued in July 2018. It is also prepared in accordance with the UK Listing Authority's Listing Rules and Disclosure and Transparency Rules.

Voting outcomes 2018



94.25 per cent of shareholders voted in favour of the Remuneration Report at the Company's 2018 AGM.

Voting results were:

For: 136,785,808 (94.25 per cent of votes cast)

Against: 8,344,183 (5.75 per cent of votes cast)

Withheld: 5,730,503

The Remuneration Policy received a vote of 96 per cent in favour at the 2017 AGM, and a new Policy will be submitted to shareholders again at the 2020 AGM.

Remuneration Committee Report *continued*

At a glance

2018 remuneration outcome

The tables below set out how we performed against targets for the MIP in 2018. The performance measures and targets are linked to the key strategic objectives highlighted on pages 18 and 19 of the Strategic Report.

MIP Element A: 98.0 per cent of maximum (2017: 100 per cent of maximum) was awarded to the Chief Executive Officer and Chief Financial Officer.

MIP Element B: 98.0 per cent of maximum (2017: 100 per cent of maximum) was awarded to the Chief Executive Officer and Chief Financial Officer.

	Threshold (0% payable)	Maximum (100% payable)	Actual (2018)	Weighting outcome (% total award)	CEO £'000	CFO £'000
EPS (75% of maximum)	23.54p	26.21p	26.57p	100%	£835,106 max £835,106 actual	£547,809 max £547,809 actual
Operating cash flow ("OCF") to EBITDA ratio (25% of maximum)	£64.8m	£78.6m	£76.4m	92.3%	£278,369 max £257,053 actual	£182,603 max £168,621 actual
Non-financial targets				100%	No deduction	No deduction
Total						

Performance conditions were set at the beginning of 2018 and the Committee took account of both internal budgets and external factors such as the market consensus of investors for the full year 2018.

Definitions:

EPS and OCF are 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.

EPS

EPS relates to our strategic objective to grow profits. EPS grew by 22 per cent to 26.29 pence in 2018.

OCF

OCF targets are set by reference to EBITDA and relate to our strategic objective to convert projects into cash flow. The OCF to EBITDA ratio was 92 per cent in 2018.

Non-financial targets

Our customers are at the heart of our business model, and our measurement of customer service uses factors such as product availability, on-time delivery performance and administrative and delivery accuracy to assess performance. The Group's average customer service performance, assessed monthly, exceeded its minimum target of 95 per cent throughout 2018. The Group also continued its excellent performance against its stated objective of keeping days lost to accidents to a minimum, by reference to the 2015 rate. Days lost to accidents year on year actually reduced by a further 26 per cent. Had either of these targets not been met, the overall level of MIP award would have reduced by 10 per cent; the achievement of these measures means that no reduction factor will apply.

See page 70 for details of the awards made.

Link to Company strategy

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

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

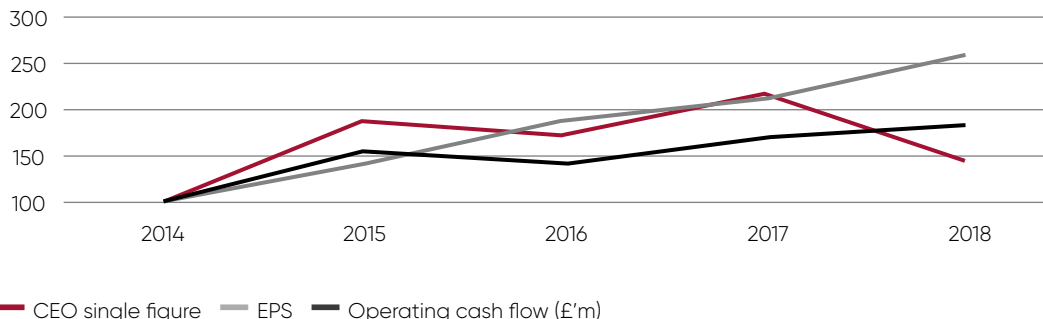
The use of EPS under the MIP as the main performance condition ensures that the Executive Directors are focused on driving increased profitable growth in accordance with the Company strategy. The OCF to EBITDA ratio ensures that this growth in profit is not at the expense of its sustainability. The customer metric and health and safety performance conditions reflect our commitment to service and employee wellbeing and the need to ensure that growth and profitability are not achieved in a way that is detrimental to the Company's customers and employees.

Full details of the Company's strategy are set out in the Strategic Report on pages 18 and 19.



Long-term performance

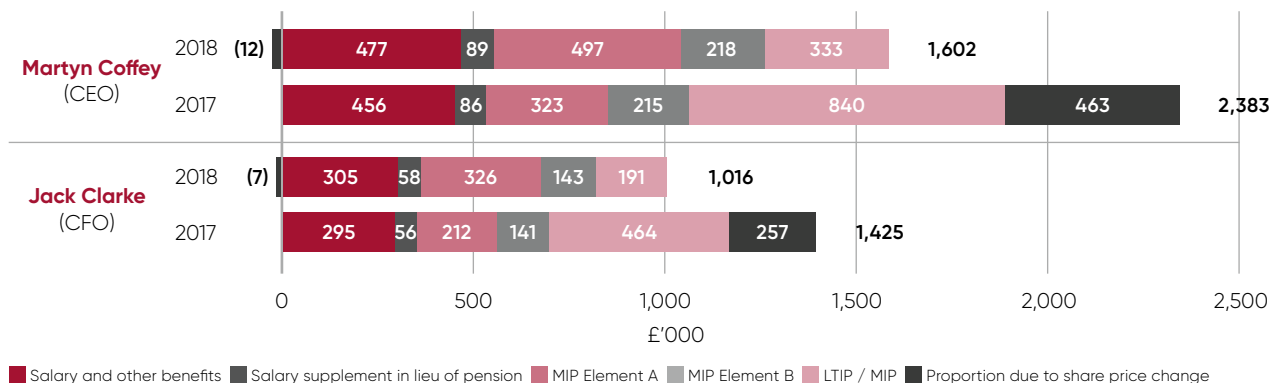
The following chart shows the single figure of remuneration for the CEO over the last 4 financial years compared to the Company's EPS and operating cash flow over the same period. The chart demonstrates a strong correlation between Company performance demonstrated by these measures and the remuneration paid to the CEO.



2017 / 18 single figure

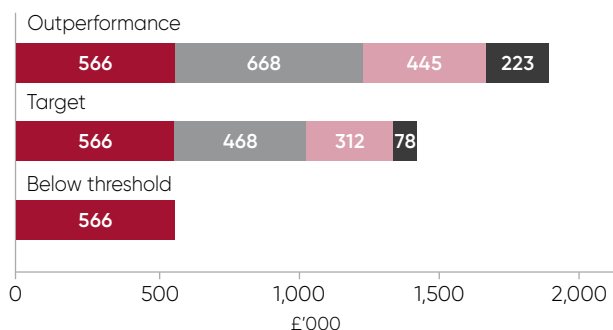
The following charts summarise the single figure of remuneration for 2018 in comparison with 2017 and with the minimum, target and maximum remuneration scenarios from the 2017 Remuneration Policy to show how the actual remuneration compares to the Policy remuneration. For those elements of remuneration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

Explanatory notes on the single figure can be found in the Annual Report on Remuneration (page 69).

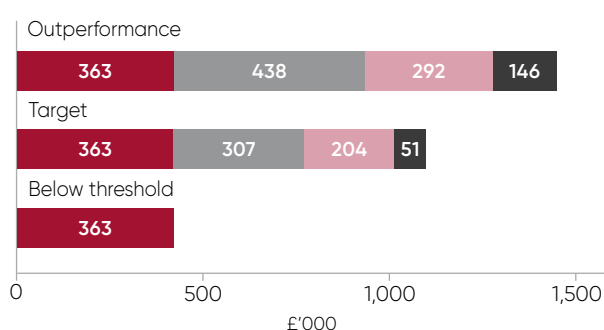


Total remuneration opportunity under the Policy for each of the Executive Directors at 3 different levels of performance is shown below:

Chief Executive



Finance Director



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

Notes:

- (a) Base salary, benefits and pension information is taken from the single figure remuneration table in the 2018 Annual Remuneration Report. The benefits value reflects a fully expensed company car, medical insurance and any other taxable benefits and pension includes the level of pensions allowance paid instead of contractual employer pension contributions.
- (b) Achievement of performance targets in line with expectations will result in 70 per cent of the annual award under the MIP.
- (c) The minimum assumes a performance that fails to meet the threshold for Element A and Element B so is the level below which no variable pay under the MIP is earned.
- (d) The maximum represents the full 250 per cent of salary potential under the MIP.



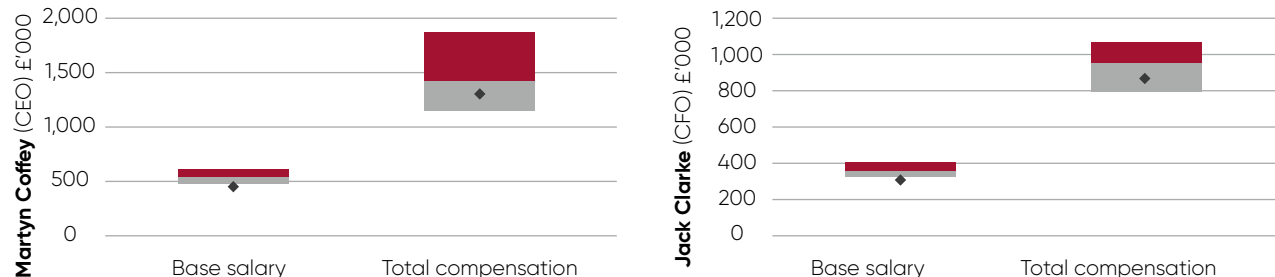
Remuneration Committee Report *continued*

At a glance *continued*

Long-term performance *continued*

Comparison to peers

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

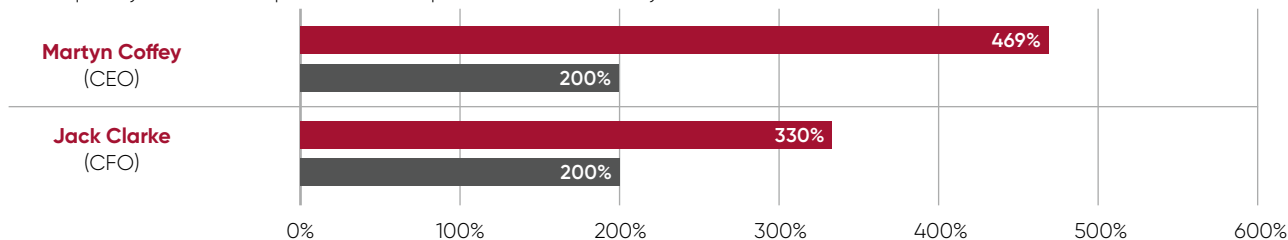


■ Lower quartile to median ■ Middle to upper quartile ◆ Martyn Coffey (CEO) / Jack Clarke (CFO)

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

Shareholding requirement

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



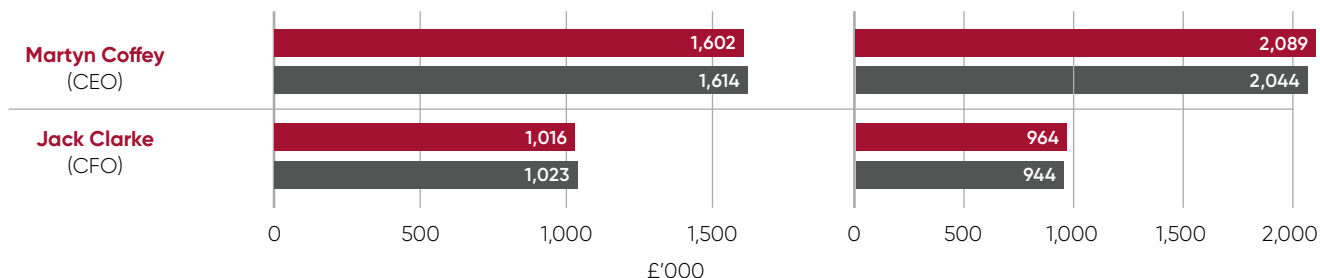
■ Actual shareholding ■ Shareholding requirement

Remuneration, equity and reward of the Executive Directors

It is the Committee's view that it is important when considering the remuneration paid in the year under the single figure to take a holistic view of the Director's total reward linked to the performance of the Company. In the Committee's opinion, the impact on the total reward of the Director is more important than the single figure in any one year. This approach encourages Directors to take a long-term view of the sustainable performance of the Company, which is critical in a cyclical business. The ability for the Directors to gain and lose, dependent on the share price performance of the Company, at a level which is material to their total remuneration is a key facet of the Company's Remuneration Policy. The following table sets out the single figure for 2018, the number of shares held by the Executive Directors at the beginning and end of the financial year and the impact on the value of these shares taking the opening price and closing price for the year.

Impact of share price change on single figure remuneration

Impact of share price change on value of shares held



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



Company's remuneration principles

The Company applies the following remuneration principles throughout the organisation at all levels:

- The Company's policy is to target a remuneration package that is at around median for median performance, and in the upper quartile for exceptional performance, and which is closely linked with the Company's strategic objectives.
- In setting all elements of remuneration the Company seeks to benchmark itself against comparable companies.
- The aim of the Company's policy is to attract, retain and continue to motivate talented employees while aligning remuneration with the achievement of the Company's strategic objectives.

When determining remuneration policy specifically for the Executive Directors the Remuneration Committee also addressed the following:

Factor	How addressed under the Remuneration Policy
Clarity	The Company's performance-based remuneration framework is linked to the implementation of the Company's strategy. Overall strategic performance is measured through KPIs which are the same measures as used for the incentive plan. This provides clarity to all stakeholders on the relationship between the successful implementation of the Company's strategy and the remuneration paid.
Simplicity	The Company operates a single incentive plan for Executive Directors and senior management that incorporates both an annual bonus and a long-term share incentive plan, using common performance measures that are clearly explained in reports to shareholders and stakeholders. This avoids complexity.
Risk	<p>The Remuneration Policy:</p> <ul style="list-style-type: none"> • sets defined limits on the maximum award which can be earned; • requires deferral of a substantial proportion of the incentives in shares for a material period of time; • aligns performance conditions with the strategy of the Company; • incorporates an underpin on part of the incentive; and • ensures there is sufficient flexibility to adjust payments through malus and clawback and that the Committee has overriding discretion to depart from formulaic outcomes. <p>These elements mitigate against the risk of target-based incentives by:</p> <ul style="list-style-type: none"> • limiting the maximum value that can be earned; • deferring the value in shares for the long term which helps ensure that the performance earning the award is sustainable and thereby discouraging short-term behaviours; • aligning any reward to the achievement of Company strategy; • using an underpin to focus on the sustainability of performance over the longer term; • reducing the award or cancelling it if the behaviours giving rise to the award are inappropriate; and • reducing the award or cancelling it if it appears that the criteria on which the award was based do not reflect the underlying performance of the Company.
Predictability	The Committee provided illustrations of potential outcomes when the MIP was submitted for shareholder approval in 2014. The measurement of performance over a single year provides a more predictable outcome and aligns with the performance actually delivered during the year. This helps avoid the situation where rewards are tested against historical performance measures, but performance in the year of vesting may not appear to warrant the outcome.
Proportionality	The Company's incentive plan clearly rewards the successful implementation of its strategy and, through deferral into shares or share equivalents, ensures that the Executive Directors have a strong drive to ensure that the performance is sustainable over the long term.
Alignment to culture	The focus on long-term sustainable performance and share participation is a key part of the Company's culture. This is supported by the Remuneration Policy.

It should be noted that the Remuneration Policy operated over the 2018 financial year as intended by the Committee.



Remuneration Committee Report *continued*

Implementation of Policy in 2018 and 2019

Element and link to strategy	Period over which earned						
	2019	2020	2021	2022	2023	2024	2025
<p>Salary Base salary recognises the market value of the Executive's role, skills, responsibilities, performance and experience.</p> <p>Typically, the base salaries of Executive Directors in post at the start of the Policy period and who remain in the same role throughout the Policy period will be increased by a similar percentage to the average annual percentage increase in salaries of all other employees in the Group.</p>	➔						
<p>Benefits and pension Benefits are company car, medical health insurance, life cover and annual health checks. Pension contribution is designed to enable Executive Directors to make appropriate provision for retirement.</p>	➔						
<p>Management Incentive Plan Element A Enabling the successful implementation of Group strategy through setting relevant targets to measure Executive Director performance. Aligns the interests of Executives with shareholders and contributes to the retention of key individuals by ensuring that Executives take part of their annual bonus in shares or share-linked units rather than cash.</p> <p>Upon assessment of performance by the Committee, a contribution will be made by the Company into the participant's plan account and 50 per cent of the cumulative balance will be paid in cash. Any remaining balance will be converted into shares or share-linked units.</p> <p>100 per cent of the balance in the final year of the plan will normally be paid in shares to the participant. During the plan period, 50 per cent of the retained balance is at risk of forfeiture based on a minimum level of performance determined annually by the Committee.</p>	➔	➔	➔	➔			
<p>Management Incentive Plan Element B To link variable pay to achievement of annual financial and business objectives.</p> <p>To promote long-term shareholding in the Company and strengthen alignment between interests of Executive Directors and senior managers and those of shareholders.</p> <p>Awards are made annually in shares. Awards are subject to continued employment for 3 years.</p> <p>Awards, once vested (net of tax), may not be sold for a further 2 years.</p> <p>There is a financial underpin which, if not achieved over 3 years, results in the loss of up to 50 per cent of unvested awards.</p>	➔➔➔➔➔➔➔➔						➔



How we implemented the Policy in 2018

Executive Director salaries for 2018 were as follows:

CEO – £445,000

Group FD – £292,000

Salary increases were 3.5 per cent in 2018, in line with inflation and increases for the Group's UK employees generally.

The maximum Company contribution or pension allowance is 20 per cent of salary.

Maximum opportunity in 2018 was as follows:

CEO – 147 per cent of base salary

Group FD – 147 per cent of base salary

A minimum of 50 per cent of bonus is based on financial performance measures.

The performance measures were:

- EPS (75 per cent);
- ratio of OCF to EBITDA (25 per cent); and
- non-financial targets (which, if not met, result in a deduction from amount earned under financial measures).

Outcome level for 2018 was as follows:

CEO – 98 per cent

Group FD – 98 per cent

The performance measures were the same as for Element A.

How we will implement the Policy in 2019

A salary increase of 3.3 per cent will be applied at the salary review date. From 1 January 2019, Executive Director salaries will be:

CEO – £460,000

Group FD – £302,000

The general employee base salary increase for 2019 was 3.3 per cent.

No change to benefits, and no intention to retrospectively amend existing contractual rights. The Committee will consider a change for new recruits to align more closely with general workforce contribution.

No change to opportunities under the MIP.

No change to the performance conditions under the MIP.

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 continue to apply:

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

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

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

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

The measurement period under the MIP by reference to which these targets must be met will be the full financial year ending 31 December 2019. It is the view of the Committee that the targets for the MIP are commercially sensitive as they are primarily related to budgeted future profit and cash levels in the Company and therefore their disclosure in advance is not in the interests of the Company or shareholders. The Committee will, however, provide full retrospective disclosure to enable shareholders to judge the level of award against the targets set.

Malus and clawback apply to both 2018 and 2019 awards.

Remuneration Committee Report *continued*

Implementation of Policy in 2018 and 2019 *continued*

Non-Executive Directors

The Board approved an increase in the base fee of Non-Executive Directors of 3.3 per cent from 1 January 2019, in line with Executive Directors and UK employees. An increase to the fee for Committee Chairs and the SID was also approved to reduce the gap with the Company's comparator group. Non-Executive Directors reclaim business expenses incurred in the performance of their duties retrospectively against duly presented invoices.

Director	1 January 2019 £'000	1 January 2018 £'000	Percentage increase
Andrew Allner (Chair) – retired on 9 May 2018	–	148.3	–
Vanda Murray (Chair) – appointed on 9 May 2018	170.4	–	–
Janet Ashdown (SID, Chair of Remuneration Committee)	63.1	54.5	15.7
Tim Pile	47.8	46.3	3.3
Graham Prothero (Chair of Audit Committee)	56.1	53.4	5.0

Fairness, diversity and wider workforce considerations

Introduction

This section of the Remuneration Report deals with the following:

- the Committee's approach to the review of wider workforce pay policies and whether the approach to Executive remuneration is consistent;
- the alignment of the incentives operated by the Company with its culture and strategy;
- general pay and conditions in the Company;
- gender and diversity; and
- comparison metrics relating to executive and employee remuneration.

Process

In order for the Committee to fulfil its responsibility for the oversight and review of wider workforce pay and policies and incentives and ensure they are designed to support the desired culture and values of the Group, a formal process has been introduced, under which the Committee receives a report twice a year from the Company setting out key details of remuneration throughout the Company. The information received by the Committee in this report is then reviewed at the end of the financial year. The reports will incorporate, for each area of the business, data on:

- salary and salary increases;
- general positioning of remuneration packages;
- bonus (total eligible population, target and maximum range, performance conditions, payment method, scope for discretion / recovery under malus and clawback provisions);
- sales and commission plans;
- long-term incentive plans (total eligible population, target and maximum range, performance conditions, payment method, scope for discretion / recovery under malus and clawback provisions, vesting and holding periods); and
- pension schemes (defined contribution plan, total eligible population, Company contribution and employee contribution).

As Senior Independent Director and designated Director for employee engagement, Janet Ashdown will avail herself of opportunities to attend employee forums within a planned engagement framework developed following the work done with consultants Corporate Culture in 2017 and 2018. The Committee also expects to receive feedback from employee surveys and the Company "town hall" meeting programme of site visits by the Executive Directors and senior management.



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

Clearly the levels of remuneration and the packages offered will vary across the Company depending on the employee's level of seniority and role. The Committee is not looking for a homogeneous approach; however, when conducting its review it is paying particular attention to:

- whether the element of remuneration is consistent with the Company remuneration principles (see page 59);
- whether the incentive structure is designed in a way that promotes the Company's strategy, values and culture;
- if there are differences, they are objectively justifiable; and
- whether the approach seems fair and equitable in the context of other employee packages.

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

Overview of findings

The key findings of the Committee's review for 2018 are as follows:

- Average salary increases for employees across the Company are being applied on an equitable and objective basis. The average rise of 3.3 per cent is the same as that applied to the salaries of the Executive Directors, consistent with our policy to provide generally the same percentage increase for employees whose roles have not changed during the year.

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

The following table shows the cascade of incentives throughout the Company:

Level (number)	Participation in Element A of the MIP (percentage range)	Participation in Element B of the MIP (percentage range)	Participation in other bonus or commission plans	Participation in all-employee equity plans (Sharesave / SPP)
Executive Directors (2)	150% of salary	100% of salary	X	✓
Executive Committee (6)	85% to 120% of salary	55% to 70% of salary	X	✓
Senior management (12)	45% to 55% of salary	30% to 35% of salary	X	✓
Employees in BSP (49)			15% to 45% +5% bonus shares	✓
Employees in other job related bonus or commission schemes (460)			Sales bonuses	✓

- Equity participation is offered to all employees of the Company through the Share Purchase Plan and SAYE schemes and to managers and the Executive through the MIP or the BSP, each of which involves the award of shares. It is the Company's wider pay policy to allow employees to share in Company success by means of equity participation.
- In line with the Company's wider policy on pay, all employees are eligible for enrolment in a Company defined contribution pension arrangement. The current basic contribution (4 per cent employer, 4 per cent employee for the Marshalls Group) is likely to increase by agreement with the workforce in 2020. The Committee would expect the pension contribution for new Executive Directors and senior management who may be recruited in future to be aligned more closely with the pension contribution applicable to the wider workforce.
- In line with the wider Company policy on pay, the Company offers life assurance cover for death in service to all its employees. The minimum lump sum benefit for all employees has increased to £50,000 with effect from 1 January 2019. Other benefits such as private medical cover and health screening are offered according to the level of seniority of the role in line with market practice.

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

Remuneration Committee Report *continued*

Fairness, diversity and wider workforce considerations *continued*

Living Wage employer

Marshalls is proud to be a Living Wage employer, underscoring its commitment to its employees. Marshalls benchmarked its average salaries against other similar companies (as part of the review of job evaluations carried out by external consultants in connection with the HR system implementation) and this showed that its average pay rates for equivalent jobs were generally competitive or at the higher end of the comparable range.

Bonus Share Plan

The Bonus Share Plan approved in 2015 provides the opportunity for those in the BSP to earn “free” bonus shares of up to 5 per cent of salary, which vest after 3 years subject to continued employment.

Sharesave Scheme / Share Purchase Plan

The Marshalls 2015 Sharesave Scheme was introduced to encourage wider ownership of Marshalls plc shares across the entire workforce, so that the employees are able to participate in the Group's success in a way that aligns their interests with those of shareholders. The 2015 SAYE matured in December 2018 and employees may, until June 2019, exercise their option to acquire shares from their savings fund at a discounted share price of £2.91. Participating employees in the Share Purchase Plan may purchase shares in the market on a monthly basis out of gross salary, another way of incentivising investment by employees in the Company's shares.

Fairness throughout our supply chain

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

Pay comparisons

CEO ratio

Our CEO to employee pay ratios for 2018 are as follows:

- lower quartile – 58:1
- median – 44:1
- upper quartile – 37:1

The calculation has been performed in line with the new Regulations' Option A in line with best practice and is based on the total single figure of remuneration methodology.

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

The factors leading to the increase in the ratio over the previous 3 years is the strong performance of the Company reflected in the total shareholder return which has resulted in high levels of vesting of share-based incentives granted to the CEO. Shareholders expect the CEO to have a significant proportion of pay based on performance and paid in shares. It is this element of the package which provides the volatility in CEO remuneration and the variations in the ratio. The Committee is satisfied that the underlying picture does not show a divergence trend between the CEO remuneration and employees generally, i.e. excluding share price volatility, the relationship with employee pay is consistent.

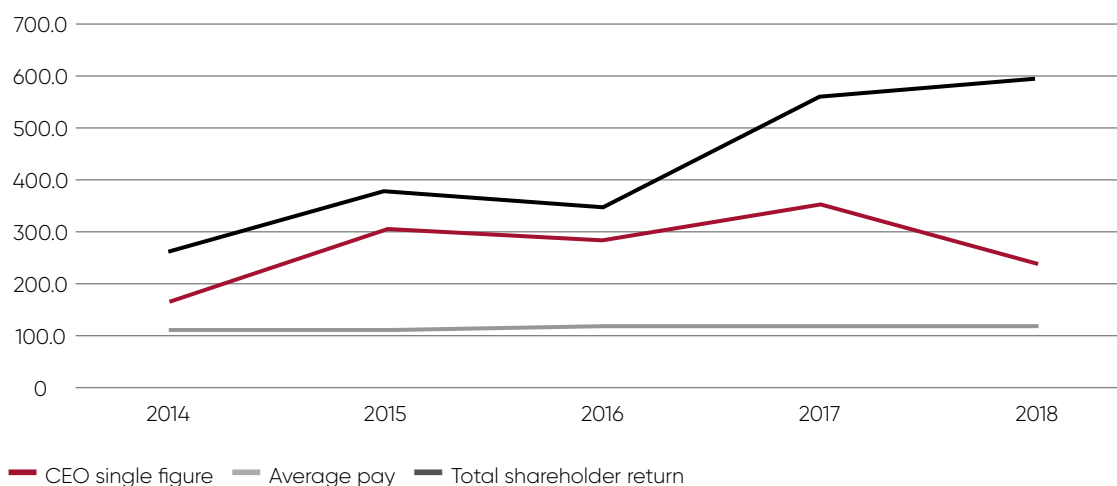
	2011	2012	2013	2014	2015	2016	2017	2018
Ratio of single figure total remuneration to average employee	23.6x	30.6x	98.1x	32.0x	60.0x	51.4x	64.1x	44.6x



There is significant volatility in this ratio, and we believe that this is caused by the following:

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

CEO / average pay against TSR



CEO pay in the last 9 years

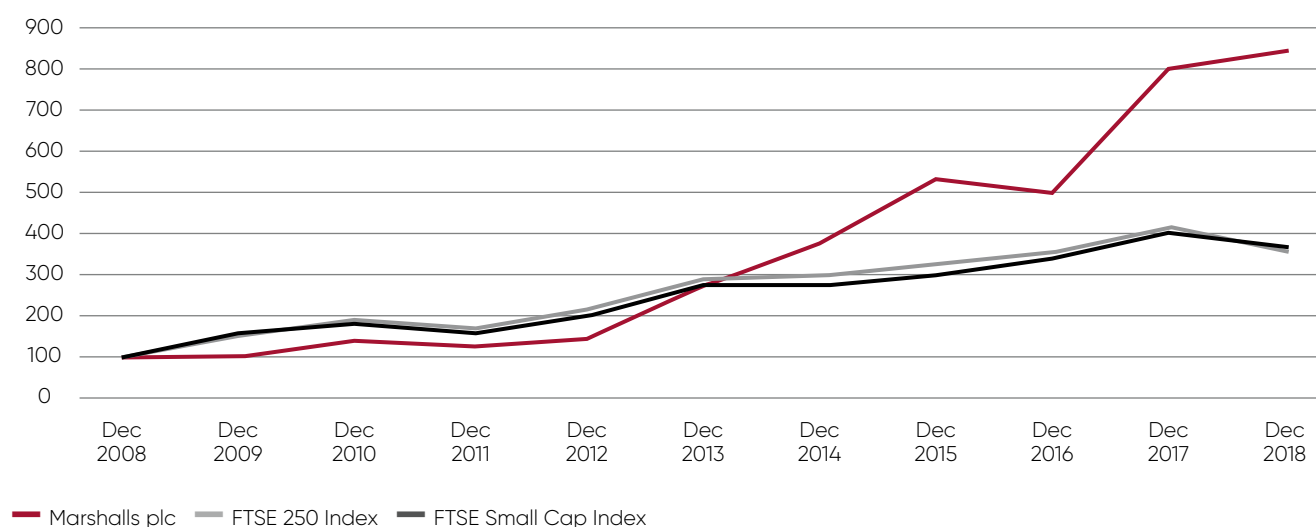
This table shows how pay for the CEO role has changed in the last 9 years:

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

Notes:

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

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

Remuneration Committee Report *continued*Fairness, diversity and wider workforce considerations *continued***Total shareholder return**

This chart shows the Group's total shareholder return ("TSR") performance compared to (i) the FTSE Small Cap Index and (ii) the FTSE 250. TSR is defined as share price growth plus reinvested dividends. Marshalls plc was a constituent of the FTSE Small Cap Index for the period from January 2009 to August 2015 and became a constituent of the FTSE 250 in August 2015. This chart shows the value at 31 December 2018 of £100 invested in Marshalls plc on 1 January 2009 compared with the value of £100 invested in (i) the FTSE Small Cap Index and (ii) the FTSE 250. The other plotted points are the intervening financial year ends. Marshalls' TSR performance improved by 5.8 per cent in 2018, compared with a fall of 9.5 per cent in the FTSE Small Cap Index and a fall of 13.3 per cent in the FTSE 250 in 2018.

Percentage change in CEO's remuneration

The table below shows how the percentage change in the CEO's salary, benefits and bonus between 2017 and 2018 compares with the percentage change in the average of each of those components of pay for the UK-based employees of the Group as a whole.

	Salary £'000		Percentage change (Note a)	Taxable benefits £'000		Percentage change	Bonus (Note b) £'000		Percentage change
	2018	2017	%	2018	2017	%	2018	2017	%
CEO pay	445	430	3.5	32	26	23.1	715	538	32.9
UK total pay	94,768	81,571	16.2	2,190	2,517	(13.0)	3,912	3,372	16.0
Number of employees	2,639	2,306	14.4	320	365	(12.3)	521	527	(1.1)
Average per employee	35.9	35.4	1.5	6.8	6.9	(0.8)	7.5	6.4	17.3

Notes:

- Martyn Coffey's salary was increased on 1 January 2018 by 3.3 per cent, the same percentage increase as given to the workforce as a whole.
- The bonus is the non-deferred amount earned for the relevant year taken from the single figure remuneration table on page 69.
- A 3.3 per cent increase was awarded to the workforce on 1 January 2018. The table above shows, however, that the average salary increase per employee for 2018 was slightly lower. This was due to variations in overtime in the current year and specific variations relating to the impact and timing of leavers and new starters.
- The table above shows that the average bonus per employee increased by 17.3 per cent in 2018 compared with the prior year.



Gender balance and pay

At the end of 2018 our total workforce excluding CPM and Edenhall, comprised 2,207 employees with the following gender balance:

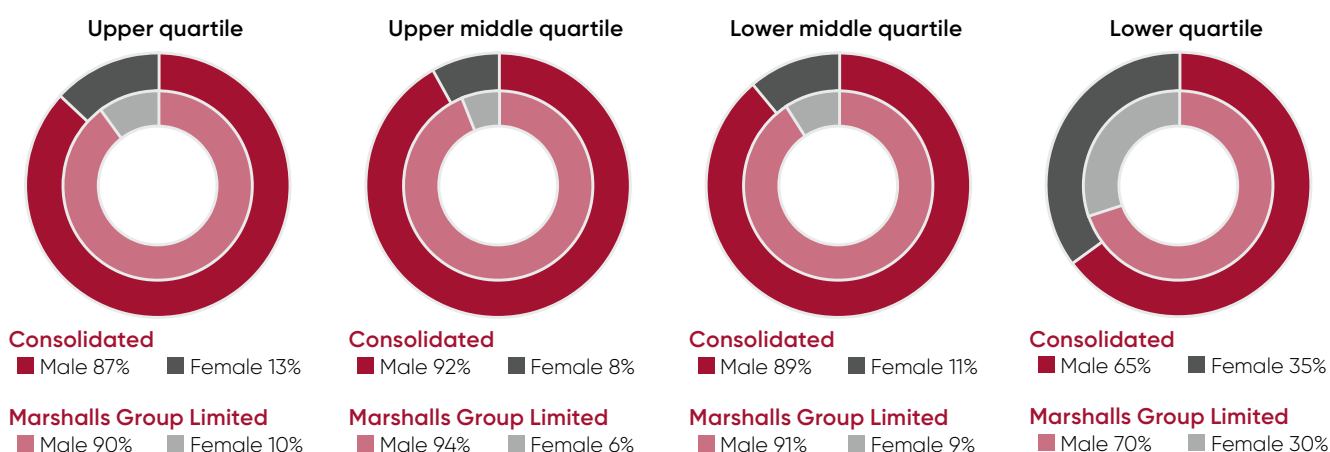
	Male	Female
Total workforce	1,845	362
Senior managers	6	2
Directors	4	2

¹ Senior managers are defined according to the 2018 Code and comprise the Executive Committee and the Company Secretary.

Our gender pay gap disclosure is based on amounts paid in the April 2018 payroll. The bonus gap is based on incentives paid in the year to 31 March 2018. Our disclosures are made pursuant to UK Government Equalities legislation. Marshalls Group has 2 employing companies: Marshalls plc (which has fewer than 250 employees, mostly at Director / senior manager level) and Marshalls Group Limited, which employs all remaining employees. The charts show the consolidated results for Marshalls plc and Marshalls Group Limited, which provides a more accurate overview of pay balance; however, the separate information that is required by the legislation in relation to Marshalls Group Limited is also included below. This information will also be posted on Marshalls' website. CPM Group Limited was acquired in October 2017, and remained a separate employer until June 2018, at which time its employees transferred to Marshalls Group Limited. A separate report for CPM Group Limited as at April 2018, calculated consistently with the methodology used for Marshalls Group and Marshalls plc, is therefore available on the Company website. Edenhall Holdings, acquired in December 2018, employed fewer than 250 employees so is not required to report in 2018.

Marshalls is committed to equal pay and opportunities for men and women throughout the Group. The gender pay gap analysis is based on a calculation of the average hourly pay and bonus of all our employees, irrespective of what job they do. This shows that as at April 2018 there is a median gender pay gap of 21.2 per cent (consolidated) (22 per cent: Marshalls Group Limited), and a mean gender pay gap of 15.2 per cent (consolidated) (16.6 per cent: Marshalls Group Limited). These ratios have not changed significantly since 2017.

Our recruitment policies, salary and bonus structures are designed to be gender neutral. However, as the gender split analysis shows, more than 80 per cent of our workforce are male, and there are more males than females in every pay band across the organisation. This is representative of the construction sector generally. During 2018 we have carried out an in-depth review of pay and benefits across the Group and worked on harmonising hours, rates and pay grading structures. This has enabled us to develop our understanding of the detailed contributory factors and identify areas for action. In broad terms, because the construction sector has traditionally attracted more men than women, a majority of our longer-serving employees (for example in middle management or shift leader positions) are male, and most of the senior roles, attracting the highest pay and bonus, are also currently held by men. In addition, there is a very high proportion of male workers within our production workforce, where packages are generally in the upper quartile of the comparator group. These appear to be the main reasons for the current difference. We have an action plan designed to identify and address any anomalies in the pay and grading structure between different gender groups, and over the longer term to balance the ratios through better recruitment and retention policies that encourage applications from female candidates and provide a flexible and family-friendly working environment.



Remuneration Committee Report *continued*

Fairness, diversity and wider workforce considerations *continued*

Gender balance and pay *continued*

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

	Male	Female
Percentage receiving bonus		
Consolidated	15.6%	33.7%
Marshalls Group Limited	14.6%	40.8%
Mean bonus gap		
Consolidated		85%
Marshalls Group Limited		70%
Median bonus gap		
Consolidated		20%
Marshalls Group Limited		2.5%

Diversity initiatives

The Group has policies that promote equality and diversity in the workforce as well as prohibiting discrimination in any form. The Group's Code of Conduct, M-Way, launched in 2017, clearly states its commitment to these principles and requires a similar commitment from its business partners. Marshalls is supportive of the initiatives reflected in the Hampton-Alexander, Parker and McGregor-Smith reviews to improve ratios in gender and ethnic diversity at Board and senior management level as well as in the wider workforce. Aligning pay and recruitment policies with these principles has formed a key element of our planning for 2018 and beyond. The Remuneration Committee Chair's engagement programme will support the initiatives in our action plan to eliminate unconscious bias, if it is found, and to ensure our pay and performance policies are fair and transparent with measures to encourage applications from talented and motivated individuals regardless of gender, ethnicity, degree of physical ability or background. Retention of such people by giving fair consideration to flexible working policies where appropriate, and ensuring incentive schemes are fairly distributed will also be key elements of our diversity strategies. We have made some progress on our gender diversity objectives: during 2018 the appointment of Vanda Murray to succeed Andrew Allner meant that we achieved our 2020 target of at least 33 per cent of our Board being female, and the number of females among senior management doubled. We welcome and give full and fair consideration to applications from individuals with recognised disabilities to ensure they have equal opportunity for employment and development in our business. Wherever practicable we offer training and make adjustments to ensure disabled employees are not disadvantaged in the workplace. More information on our employment policies can be found in our Strategic Report on page 37, and in the Nomination Committee Report on pages 48 and 49.



Annual Remuneration Report

This report covers the reporting period from 1 January 2018 to 31 December 2018 and explains how the Remuneration Policy has been implemented. Comparative figures for the 2017 financial year have also been provided.

Single total figure of remuneration in 2018 – Executive Directors (audited)

	Fixed (£'000)						Performance related (£'000)						Long-term incentives		Total	
	Salary		Other benefits		Salary supplement in lieu of pension		Annual bonus									
	2018	2017	2018	2017	2018	2017	MIP Element A		MIP Element B		LTIP / MIP		2018	2017		
Martyn Coffey	445	430	32	26	89	86	497	323	218	215	321	1,303	1,602	2,383		
Jack Clarke	292	282	13	13	58	56	326	212	143	141	184	721	1,016	1,425		
Total	737	712	45	39	147	142	823	535	361	356	505	2,024	2,618	3,808		
			Note a		Note b		Note c				Note d					

Notes:

- (a) Benefits are car / car allowance, fuel / fuel allowance, private medical insurance, life insurance and travel and accommodation expenses.
- (b) All Directors received salary supplement allowance in lieu of contributions into the Group's pension scheme throughout the year. No Director had any entitlement under the defined benefit section of the pension scheme and no additional benefit was received as a result of early retirement.
- (c) The annual bonus column shows 50 per cent of the total bonus contribution earned under the MIP Element A in respect of 2018 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 2018 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 2018 Element B shares is subject to performance and employment-based forfeiture for a 3-year deferred period. These deferred elements will be disclosed in the LTIP column when the conditions are satisfied. The deferred shares in relation to both Element A and Element B may change in value during the holding period depending on Marshalls' share price.
- (d) The LTIP column shows the aggregate value of sums released from MIP or LTIP account balances from earlier years that are no longer subject to deferral and forfeiture risk. The LTIP figure for 2017 includes the 2014 Performance Share Awards under the 2005 LTIP that vested in 2017. There were no further outstanding LTIP awards, so the 2018 column relates solely to MIP awards.

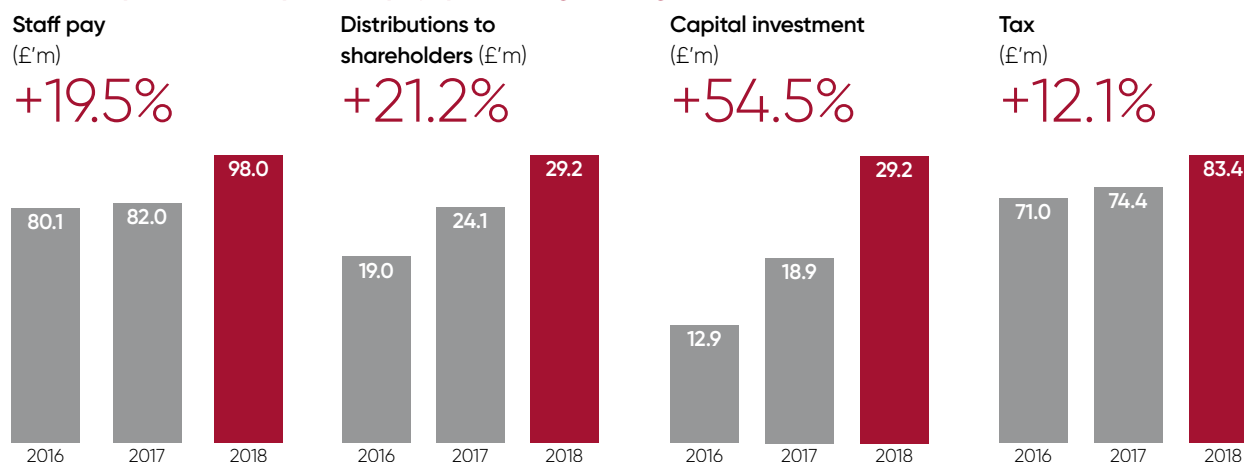
Setting pay in context

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

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

- investment – the Company's strategy is to increase capital investment to take advantage of market demand and in order to ensure that the business grows in a sustainable manner with a corresponding long-term benefit for all stakeholders; and
- tax – the Company is a UK taxpayer and feels that it is beneficial to demonstrate to all its stakeholders its total UK tax contribution. The most significant elements of the Company's UK tax contribution are VAT, employer's NI, corporation tax, fuel duty and aggregates levy. As profitability increases, corporation tax will also increase. In 2018 the Group was re-accredited with the Fair Tax Mark.

Relative importance of spend on pay (percentage change)



Remuneration Committee Report *continued*Annual Remuneration Report *continued***Outcomes of incentive schemes in 2018 (audited)**

See page 56 for details of the satisfaction of the performance conditions under the MIP for 2018.

MIP awards 2018**Element A**

Plan accounts	Martyn Coffey	Jack Clarke
Opening balance (number of shares) (Note a)	73,341	48,110
2018 contribution (% of salary earned)	147%	147%
Value	£655,296	£429,858
2018 element released (Note b)	£496,971	£326,001
Closing balance (deferred into shares)	£496,971	£326,001
Number of shares represented by closing balance (Note c)	111,194	72,940

Element B

	Martyn Coffey	Jack Clarke
Number of shares awarded	97,745	64,118
Percentage of salary	98%	98%
Value	£436,864	£286,572
EPS forfeiture threshold (Note d)	14.32p	14.32p

Notes:

- (a) 50 per cent of the earned Element A award is released to the participant as annual bonus; the remaining 50 per cent is deferred into the participant's MIP account and converted into shares. The previously deferred proportion of the 2017 Element A award was converted into shares by reference to the mid-market average value for the 30-day period ending on 31 December 2017. Dividends paid during the year are also added to the carried-forward plan account. The chart above shows the resulting opening balance value calculated by reference to the mid-market average value for the 30-day period ended 31 December 2018 and adding the value of dividends of 14.8 pence per share paid during 2018.
- (b) The earned Element A award for 2018 is added to the individual's plan account, and 50 per cent of the resulting balance is released to the participant as an annual bonus; the remaining 50 per cent is deferred into the participant's MIP account and converted into shares. The deferral is repeated in each subsequent year up to the final year. In the final year, subject to any forfeiture provisions, 100 per cent of any balance in the MIP account is released.
- (c) The carried-forward balance is converted back into shares by reference to the mid-market average value for the 30-day period ended 31 December 2018 (446.94 pence).
- (d) If the actual EPS falls below the forfeiture threshold over the 3 years before vesting, 50 per cent of the balance of the award is forfeited. Once Element B shares have vested, they must normally be held for a further 2 years. Element B shares lapse on cessation of employment except in "good leaver" circumstances, in which case they vest on leaving and must be held for 2 years from the date of leaving.

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

Non-Executive Directors do not participate in any of the Company's incentive arrangements. Their fees are reviewed periodically and were last reviewed in October 2018. The Chair's fees are set by the Committee; other Non-Executive Directors' fees are set by the Board as a whole. The Non-Executive Directors reclaim travel and accommodation expenses incurred in the performance of their duties, and where this is a taxable benefit it is shown below as a grossed-up taxable amount.

	Board fee £'000		Committee fees £'000		Expenses £'000		Total £'000	
	2018	2017	2018	2017	2018	2017	2018	2017
Andrew Allner Chair and Chair of Nomination Committee (until 9 May 2018)	55	143	-	-	1	2	56	145
Vanda Murray Chair and Chair of Nomination Committee (from 9 May 2018)	106	-	-	-	1	-	107	-
Janet Ashdown Senior Independent Director, Chair of Remuneration Committee and member of Audit and Nomination Committees	47	45	8	8	1	1	56	54
Tim Pile Member of Audit, Remuneration and Nomination Committees	46	45	-	-	1	2	47	47
Graham Prothero Chair of Audit Committee and member of Remuneration and Nomination Committees	46	29	7	4	1	1	54	34
Mark Edwards (retired 10 May 2017)	-	17	-	2	-	-	-	19
Total	300	279	15	14	5	6	320	299



The fees were increased by 3.3 per cent from 1 January 2019 in line with other Group employees. There was also an adjustment to the fee paid to Committee Chairs and to the Senior Independent Director with effect from 1 January 2019 to move closer to the comparator group following a benchmarking review in October 2018. Andrew Allner stepped down as Chair and was replaced by Vanda Murray on 9 May 2018. Fees for both these individuals reflect the period during the year when they were Chair.

Statement of implementation of Remuneration Policy in the following financial year (2018)

See pages 60 to 63.

Payments to past Directors / payments for loss of office

Except for the fees paid to Andrew Allner in respect of service up to his retirement date shown on page 70, there were no payments to past Directors. There were no payments to Directors or former Directors for loss of office.

Directors' shareholdings and share interests

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

- the number of shares the Director holds unconditionally; and
- the number of shares subject to unvested incentive awards as at 31 December 2018.

Director	Shareholding requirement		Beneficially owned	Shares that will vest following 2018 results (note c)	Deferred shares (Note d)	Deferred and contingent share interests (Note e)	Total interests in shares (including contingent interests)
	% of salary	Number of shares required (Note a)	Number of shares (Note b)	Number of shares	Number of shares	Number of shares	Number of shares
Executive							
Martyn Coffey	200	191,648	311,898	137,454	169,208	280,402	898,962
Jack Clarke	200	125,716	128,436	79,035	110,996	183,936	502,403
Non-Executive							
Vanda Murray	–	–	15,000	–	–	–	15,000
Janet Ashdown	–	–	11,210	–	–	–	11,210
Tim Pile	–	–	44,740	–	–	–	44,740
Graham Prothero	–	–	2,417	–	–	–	2,417

Notes:

- (a) The closing price on 31 December 2018 of 464.8 pence per share has been used to measure the number of shares required.
- (b) As at the date of this report the number of shares beneficially owned by Martyn Coffey was 311,987 and by Jack Clarke was 107,834. Changes were due to share purchases under the Share Purchase Plan and changes to their "persons closely associated".
- (c) This comprises Element B awards granted in March 2016 (based on 2015 performance) that will vest 3 years from grant (i.e. March 2019) before deduction of any tax and NIC. This must be held for a minimum of 2 further years.
- (d) This column includes the 50 per cent proportion of share interests awarded in 2016, 2017 and 2018 under Element B of the MIP in the form of nil-cost options or conditional shares that may be exercised after the 3-year deferral period but where vesting is only dependent on continuing employment throughout the 3-year deferral period with no other performance conditions.
- (e) This column comprises share interests awarded under the MIP (Element A deferred shares and Element B deferred shares) that remain subject to a financial performance condition as well as to continued employment over the relevant deferral period. 50 per cent of Element A awards and 100 per cent of Element B awards shown in this column may be forfeited if the financial condition is not satisfied.
- (f) Share interests under Element A and Element B of the MIP are calculated by reference to the mid-market average value for the 30-day period ended 31 December 2018 (446.94 pence).
- (g) The table above includes the interests of "persons closely associated" as defined under the Financial Services and Markets Act (Market Abuse) Regulations 2016.

It should be noted that both Executive Directors have met their minimum shareholding requirements.

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

In the event of early termination of an Executive Directors' service contract, our policy is to ensure that termination is effected in accordance with Company obligations while fully reflecting the individual's obligation to mitigate loss.

All Directors are subject to annual re-election. 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.

Element	Executive Directors			Non-Executive Directors			
	Martyn Coffey	Jack Clarke	Andrew Allner*	Vanda Murray	Janet Ashdown	Tim** Pile	Graham Prothero
Term							
Date of contract / appointment	September 2013	October 2014	July 2003 (renewed in July 2013 and May 2016)	May 2018	March 2015 (renewed March 2018)	October 2010 (renewed in July 2013 and May 2016)	May 2017
Notice period in months							
Company	12	12	6	6	6	6	6
Director	(6)	(6)	(6)	(6)	(6)	(6)	(6)

* Retired May 2018.

** Term to be extended to May 2020 subject to shareholder approval at the 2019 AGM.

Janet Ashdown**Chair of the Remuneration Committee**

14 March 2019



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 40 and 41.

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 (2017: £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 2 to 37. 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 16 on pages 109 to 114.

Greenhouse gas emissions: The Group's CO₂ (greenhouse gas) emissions in 2018 are disclosed in the Strategic Report on page 36.

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

Corporate governance: Details of how the Group complies with the UK Corporate Governance Code are set out on pages 42 to 47.

Post-balance sheet events of importance since 31 December 2018: There have been no important events affecting the Group since the end of the financial year.

Research and development: Activity and likely future developments for the business are described in the Strategic Report on pages 2 to 37.

Dividends

The Board is recommending a final dividend of 8.00 pence (2017: 6.80 pence) per share which, together with the interim dividend of 4.00 pence (2017: 3.40 pence) per share, makes a combined dividend of 12.00 pence (2017: 10.20 pence) per share. The Board is also recommending payment of a supplementary dividend of 4.00 pence per share, which is discretionary and non-recurring. Payment of the final dividend and the supplementary dividend, if approved at the Annual General Meeting, will be made on 28 June 2019 to shareholders registered at the close of business on 7 June 2019. The ex-dividend date will be 6 June 2019.

The dividend paid in the year to 31 December 2018 and disclosed in the Consolidated Income Statement is 14.8 pence (2017: 12.20 pence) per share, being the previous year's final dividend of 6.80 pence (2017: 5.80 pence) per share, the interim dividend of 4.00 pence (2017: 3.40 pence) per share in respect of the year ended 31 December 2018 and the prior year supplementary dividend of 4.00 pence per share. The 2017 final and supplementary dividends were paid on 29 June 2018 and the 2018 interim dividend was paid on 5 December 2018.

Share capital and authority to purchase shares

The Company's share capital at 1 January 2019 was 199,993,443 Ordinary Shares of 25 pence. This represented an increase of 614,678 Ordinary Shares during the year ended 31 December 2018 following the issue of shares to participants exercising their Sharesave options in December 2018. A further 58,724 Ordinary Shares were issued between 31 December 2018 and 14 March 2019 to satisfy Sharesave options exercised. Sharesave allotments were made for cash based on an exercise price of £2.91 per share and pre-emption rights were disapplied under the authority granted at the 2018 AGM. Details of the share capital are set out in Note 20 on page 119.

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

The Marshalls plc Employee Benefit Trust ("EBT") holds shares for the purposes of satisfying future awards that may vest under the Company's share-based incentive schemes. The EBT may purchase shares in the Company from time to time to satisfy awards granted to Directors and Senior Executives subject to the achievement of performance targets under the Company's incentive schemes. At 31 December 2018 the EBT held 1,736,213 Ordinary Shares in the Company (2017: 1,770,354 shares) in respect of future incentive awards under the Company's employee share schemes. Details of outstanding awards are set out in Note 17 on pages 117 and 118. The EBT has waived its right to receive dividends on shares that it holds beneficially in respect of future awards. The Trustee of the EBT exercises any voting rights on such shares in accordance with the Directors' recommendations.

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

At the Annual General Meeting in May 2018 shareholders gave authority to the Directors to purchase up to 29,886,875 shares, representing approximately 14.99 per cent of the Company's issued share capital in the Company, in the market during the period expiring at the next Annual General Meeting at a price to be determined within certain limits. No Ordinary Shares in the Company were purchased during the year or between 31 December 2018 and 14 March 2019 under this authority, which will expire at the Annual General Meeting in May 2019. The Directors will seek to renew the authority at that meeting.

Contracts of significance and related parties

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

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

Directors' Report – Other Regulatory Information *continued*

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 46 of the Corporate Governance section of the Directors' Report. The Group has not indemnified any Director under the indemnities currently in place.

Directors' interests

Details of Directors' remuneration, their interests in the share capital of the Company and the share-based payment awards are contained in the Remuneration Committee Report on pages 53 to 72.

Listing Rule requirements

The applicable requirements of Listing Rule 9.8.4R in respect of long-term incentive schemes (pages 117 and 118) and contracts of significance (page 73) are included in this Annual Report.

Substantial shareholdings

The Company has no controlling shareholder. As at 14 March 2019, the Company had been notified, in accordance with DTR 5, of the following disclosable interests of 3 per cent or more in its voting rights:

	As at 14 March 2019 %	As at 31 December 2018 %
Aberdeen Standard Investments	13.76	13.04
Majedie Asset Management	8.19	7.93
JP Morgan Asset Management	4.26	3.34
Royal London Asset Management	3.97	3.66
BlackRock	3.95	3.87
Montanaro Investment Managers	3.87	3.82
RWC Partners	3.75	4.43
Merian Global Investors	3.70	4.23
Vanguard Group	3.22	3.12

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

Cathy Baxandall

Group Company Secretary

14 March 2019



Statement of Directors' Responsibilities

in respect of the Annual Report and the Financial Statements

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

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

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

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

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

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

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

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

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

Responsibility statement of the Directors on the Annual Report and Accounts

The Directors who held office at the date of approval of this Directors' Report and whose names and functions are listed on pages 40 and 41 confirm that, to the best of each of their knowledge:

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

Disclosure of information to the auditor

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

Statement of Directors' Responsibilities *continued*

in respect of the Annual Report and the Financial Statements

Going concern

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

Cautionary statement and Directors' liability

This Annual Report 2018 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 Holiday Inn, Clifton Village, Brighouse HD6 4HW, at 11.00 am on Wednesday 15 May 2019, 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

14 March 2019



Independent Auditor's Report

to the members of Marshalls plc

Opinion

In our opinion:

- the Financial Statements of Marshalls plc (the "Parent Company") and its subsidiaries (the "Group") give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2018 and of the Group's profit for the year then ended;
- the Group Financial Statements have been properly prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union;
- the Parent Company Financial Statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and
- the Financial Statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group Financial Statements, Article 4 of the IAS Regulation.

We have audited the Financial Statements which comprise:

- the Consolidated Income Statement;
- the Consolidated Statement of Comprehensive Income;
- the Consolidated and Parent Company Balance Sheets;
- the Consolidated and Parent Company Statements of Changes in Equity;
- the Consolidated Cash Flow Statement; and
- the related Notes 1 to 42.

The financial reporting framework that has been applied in the preparation of the Group Financial Statements is applicable law and IFRSs as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the Parent Company Financial Statements is applicable law and United Kingdom Accounting Standards, including FRS 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the Financial Statements section of our report.

We are independent of the Group and the Parent Company in accordance with the ethical requirements that are relevant to our audit of the Financial Statements in the UK, including the Financial Reporting Council's (the "FRC's") Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We confirm that the non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the Parent Company.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Summary of our audit approach

Key audit matters	<p>The key audit matters that we identified in the current year were:</p> <ul style="list-style-type: none">• the valuation of the inventory provision;• acquisition accounting, in particular the identification and valuation of intangible assets and fair value of other assets and liabilities acquired as part of the Edenhall Group acquisition; and• revisions to provisional fair value adjustments on the CPM Group acquisition in 2017. <p>Within this report, any new key audit matters are identified with ↑ and any key audit matters which are the same as the prior year identified with →.</p>
Materiality	<p>The materiality that we used for the Group Financial Statements was £3.1 million which was determined on the basis of 5 per cent of profit before tax.</p>
Scoping	<p>Full scope audits were performed on all UK components excluding the Edenhall Group. This accounts for 96 per cent of group revenue, 96 per cent of group net assets and 98 per cent of profit before tax.</p>
Significant changes in our approach	<p>The Group acquired the Edenhall Group during the year and we have identified a key audit matter for the current year relating to the acquisition accounting for this transaction, in particular the identification and valuation of intangible assets and fair values of other assets and liabilities acquired.</p> <p>We have also refined our key audit matter in relation to the acquisition of CPM Group to be the fair value adjustments made in the current year.</p> <p>Apart from the above, there have been no other significant changes in our audit approach since the prior year.</p>



Independent Auditor's Report *continued*

to the members of Marshalls plc

Conclusions relating to going concern, principal risks and viability statement

Going concern

We have reviewed the Directors' Statement in Note 1 to the Financial Statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them and their identification of any material uncertainties to the Group's and Company's ability to continue to do so over a period of at least 12 months from the date of approval of the Financial Statements.

We considered as part of our risk assessment the nature of the Group, its business model and related risks including where relevant the impact of Brexit, the requirements of the applicable financial reporting framework and the system of internal control. We evaluated the Directors' assessment of the Group's ability to continue as a going concern, including challenging the underlying data and key assumptions used to make the assessment, and evaluated the Directors' plans for future actions in relation to their going concern assessment.

We are required to state whether we have anything material to add or draw attention to in relation to that statement required by Listing Rule 9.8.6R(3) and report if the statement is materially inconsistent with our knowledge obtained in the audit.

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

Principal risks and viability statement

Based solely on reading the Directors' Statements and considering whether they were consistent with the knowledge we obtained in the course of the audit, including the knowledge obtained in the evaluation of the Directors' assessment of the Group's and the Company's ability to continue as a going concern, we are required to state whether we have anything material to add or draw attention to in relation to:

- the disclosures on pages 23 to 27 that describe the principal risks and explain how they are being managed or mitigated;
- the Directors' confirmation on page 24 that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity; or
- the Directors' explanation on page 24 as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We are also required to report whether the Directors' statement relating to the prospects of the Group required by Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit.

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

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the Financial Statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team.

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

Valuation of the inventory provision →

Key audit matter description

The Group is primarily involved in the manufacture and sale of landscape and natural stone products, selling to Public Sector, Commercial and Domestic end users. It records inventory at the lower of cost and net realisable value, carrying a large amount of inventories in order to meet customer needs on demand. The Group offers a wide range of non-perishable products that are manufactured and subsequently stored in large quantities at various locations, and therefore carries a high level of inventories at any given point.

A risk exists that the sales prices of inventories, particularly those which are aged or in excess of specific customer requirements, may need to be discounted before they can be sold. The risk of discounting, combined with potential costs to move the inventories to a location where demand exists, may result in the inventories being sold at below cost.

The Directors are responsible for making judgements surrounding:

- the length of time required to sell inventories;
- the level of discounts necessary to sell inventories; and
- whether inventories will need to be discounted below their cost price.

Given the significant level of judgement involved, we have also identified this as a potential fraud risk area.

The carrying value of the Group's inventory is £84.4 million, as disclosed in Note 11, and this is noted as an area considered by the Audit Committee in its report on page 52.



Valuation of the inventory provision *continued* →

How the scope of our audit responded to the key audit matter	<p>We have:</p> <ul style="list-style-type: none"> • reviewed business processes surrounding the recording of inventory quantities and management's review of the valuation and provisioning of inventory; • evaluated the design and implementation and tested the operating effectiveness of key controls relating to purchasing, recording of inventory quantities and inventory provisioning across the Group; • attended inventory counts at key locations to observe the count procedure being undertaken and inspect the condition of inventories; • used data analytic techniques and tests of detail to compare sales value by product line to inventory cost to identify any inventory sold for less than its cost; and • we assessed the adequacy of provisions recorded for such items in relation to stock turnover periods including, where relevant, the impact of Brexit.
Key observations	The results of our testing were satisfactory. We concur with the basis of valuation of inventory and are satisfied that the level of inventory provisions is appropriate.

Acquisition accounting ↑

Key audit matter description	<p>The Group completed the acquisition of the entire share capital of the Edenhall Group on 11 December 2018. The acquisition is accounted for in accordance with IFRS 3 "<i>Business Combinations</i>" and this requires judgement to be applied in the identification and valuation of intangible assets and the determination of other fair value adjustments to the net assets within the acquired business. This process is inherently complex and a risk exists that intangible assets and other fair value adjustments may be incorrectly identified and valued.</p> <p>As described in Note 22 to the Financial Statements, the provisional fair value of the net assets acquired has been estimated at £3.0 million and intangible assets have been identified and valued at £3.9 million. This matter is discussed in the Report of the Audit Committee on page 52.</p>
How the scope of our audit responded to the key audit matter	<p>We have:</p> <ul style="list-style-type: none"> • evaluated the design and implementation of key controls relating to management's process for identification and valuation of intangible assets; • reviewed the accounting entries recorded by agreeing to management's acquisition accounting paper and workings and the sale and purchase agreement ("SPA"); • agreed cash paid in respect of consideration to bank statements and assessed total consideration by reference to the SPA; • reviewed forecasts for the Edenhall Group and performed sensitivity analysis to assess whether the contingent consideration recorded is appropriate; • reviewed the SPA for any unusual clauses that may have accounting consequences and assessed the completeness of acquisition adjustments; • tested the significant fair value adjustments recorded in respect of the business acquired by reference to supporting evidence; • used our valuation specialists to review and challenge the process applied by management for determining the separable intangible assets and the appropriateness of the valuation methodologies adopted and the discount rate applied in the valuation calculations; and • assessed the basis upon which management determines the useful economic life of each intangible asset, considering any contradictory evidence.
Key observations	Based on our procedures we concur that the judgements made by management in identifying and valuing intangible assets within the acquired business are reasonable.

Independent Auditor's Report *continued*

to the members of Marshalls plc

Revisions to provisional fair value adjustments on the CPM acquisition in 2017 ↑

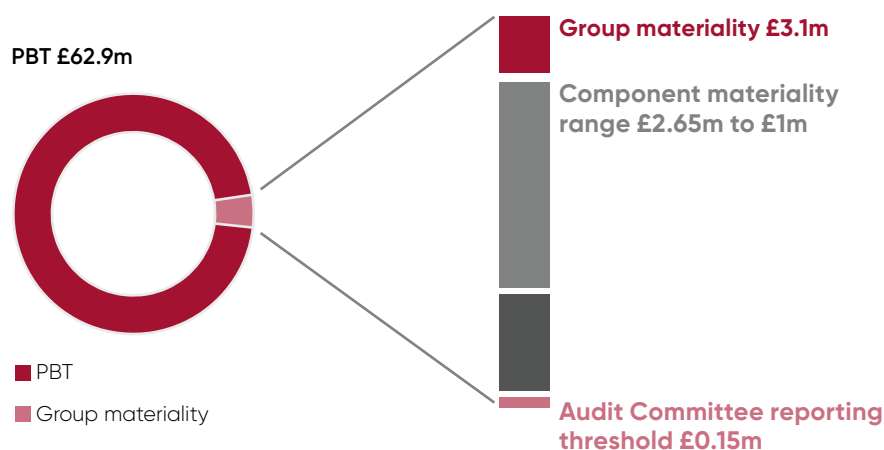
Key audit matter description	<p>The Group acquired CPM Group Limited in the prior year. The acquisition was accounted for in accordance with the requirements of IFRS 3 "Business Combinations" and this required judgement to be applied in the determination of fair value adjustments to the net assets within the acquired business. IFRS 3 allows an adjustment to be made to the fair values of the net assets acquired within the 12 months post acquisition and revisions to provisional fair values require management judgement. There is a risk that the fair value adjustments made may be incorrectly valued following these revisions.</p> <p>As disclosed in Note 22 to the Financial Statements, revisions to provisional fair value adjustments made on the CPM Group Limited acquisition were £1.0 million. This matter is discussed by the Audit Committee on page 52.</p>
How the scope of our audit responded to the key audit matter	<p>We have:</p> <ul style="list-style-type: none"> evaluated the design and implementation of key controls relating to management's processes; tested the significant revisions to provisional fair value adjustments recorded in respect of the business acquired by reference to supporting third party evidence; and assessed the basis upon which management determines that a revision to the initial fair value adjustment is required.
Key observations	<p>Based on our procedures we concur that the judgements made by management in identifying and valuing the fair value adjustments within the acquired business are reasonable.</p>

Our application of materiality

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

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

	Group Financial Statements	Parent Company Financial Statements
Materiality	£3.1 million (2017: £2.5 million).	£1.0 million (2017: £1.0 million).
Basis for determining materiality	5 per cent (2017: 5 per cent) of profit before tax.	0.5 per cent (2017: 0.5 per cent) of net assets which was capped at 40 per cent (2017: 40 per cent) of Group materiality.
Rationale for the benchmark applied	In our professional judgement, profit before tax is the principal benchmark within the Financial Statements that is relevant to users of the Financial Statements when assessing performance.	As a holding company, net assets are considered to be the primary benchmark.



We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £147,000 (2017: £100,000), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the Financial Statements.



An overview of the scope of our audit

Our Group audit was scoped by obtaining an understanding of the Group and its environment, including Group-wide controls, and assessing the risks of material misstatement both at the Group and component level.

The Group and Parent Company audits are performed at the Group's head office in Elland, West Yorkshire. The Group audit team performed the audit of all UK components, but excluding the Edenhall Group. The UK components, excluding the Edenhall Group, accounted for 96 per cent (2017: 95 per cent) of Group revenue, 96 per cent (2017: 99 per cent) of Group net assets and 98 per cent (2017: 100 per cent) of Group profit before tax.

Edenhall Group and Marshalls NV account for the remaining revenue and net assets of the Group but were not regarded as significant components for our Group audit. At the Parent Company level, we also tested the consolidation process. The Group audit team carried out analytical procedures to confirm our conclusion that there were no significant risks of material misstatement of the aggregated financial information of the remaining component not subject to audit.

Other information

The Directors are responsible for the other information. The other information comprises the information included in the Annual Report, other than the Financial Statements and our Auditor's Report thereon.

We have nothing to report in respect of these matters.

Our opinion on the Financial Statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the Financial Statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the Financial Statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the Financial Statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

In this context, matters that we are specifically required to report to you as uncorrected material misstatements of the other information include where we conclude that:

- **Fair, balanced and understandable** – the statement given by the Directors that they consider the Annual Report and Financial Statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- **Audit Committee reporting** – the section describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee; or
- **Directors' Statement of Compliance** with the UK Corporate Governance Code – the parts of the Directors' Statement required under the Listing Rules relating to the Company's compliance with the UK Corporate Governance Code containing provisions specified for review by the Auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

Responsibilities of Directors

As explained more fully in the Directors' Responsibilities Statement, the Directors are responsible for the preparation of the Financial Statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of Financial Statements that are free from material misstatement, whether due to fraud or error.

In preparing the Financial Statements, the Directors are responsible for assessing the Group's and the Parent Company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the Financial Statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an Auditor's Report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these Financial Statements.

Details of the extent to which the audit was considered capable of detecting irregularities, including fraud are set out below.

A further description of our responsibilities for the audit of the Financial Statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our Auditor's Report.

Independent Auditor's Report *continued*

to the members of Marshalls plc

Extent to which the audit was considered capable of detecting irregularities, including fraud

We identify and assess the risks of material misstatement of the Financial Statements, whether due to fraud or error, and then design and perform audit procedures responsive to those risks, including obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion.

Identifying and assessing potential risks related to irregularities

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, our procedures included the following:

- enquiring of management, internal audit and the Audit Committee, including obtaining and reviewing supporting documentation, concerning the Group's policies and procedures relating to:
 - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
 - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud; and
 - the internal controls established to mitigate risks related to fraud or non-compliance with laws and regulations;
- discussing among the engagement team and involving relevant internal specialists, including tax, valuations, pensions, IT, regarding how and where fraud might occur in the Financial Statements and any potential indicators of fraud. As part of this discussion, we identified potential for fraud in revenue recognition due to occurrence and in stock provisioning due to the judgement involved in determining the net realisable value; and
- obtaining an understanding of the legal and regulatory framework that the Group operates in, focusing on those laws and regulations that had a direct effect on the Financial Statements or that had a fundamental effect on the operations of the Group. The key laws and regulations we considered in this context included the UK Companies Act, Listing Rules, pensions legislation and tax legislation.

Audit response to risks identified

As a result of performing the above, we identified the valuation of inventory provision as a key audit matter. The key audit matters section of our report explains the matter in more detail and also describes the specific procedures we performed in response to that key audit matter.

In addition to the above, our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with relevant laws and regulations discussed above;
- enquiring of management, the Audit Committee and in-house legal counsel concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- using data analytics techniques to identify instances where sales postings do not have a matching invoice or despatch note and understanding the reasons;
- reading minutes of meetings of those charged with governance, reviewing internal audit reports; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

In our opinion the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

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

- the information given in the Strategic Report and the Directors' Report for the financial year for which the Financial Statements are prepared is consistent with the Financial Statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

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



Report on other legal and regulatory requirements *continued*

Matters on which we are required to report by exception

Adequacy of explanations received and accounting records

We have nothing to report in respect of these matters.

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

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

Directors' remuneration

We have nothing to report in respect of these matters.

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

Other matters

Auditor tenure

Following the recommendation of the Audit Committee, we were appointed by the Audit Committee on 20 May 2015 to audit the Financial Statements for the year ending 31 December 2015 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 4 years, covering the years ending 31 December 2015 to December 2018.

Consistency of the Audit Report with the additional report to the Audit Committee

Our audit opinion is consistent with the additional report to the Audit Committee we are required to provide in accordance with ISAs (UK).

Use of our report

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

Christopher Robertson (Senior statutory auditor)

for and on behalf of Deloitte LLP

Statutory Auditor

Manchester, United Kingdom

14 March 2019

Consolidated Income Statement

for the year ended 31 December 2018

	Notes	2018 £'000	2017 £'000
Revenue	2	490,988	430,194
Net operating costs	3	(426,154)	(376,755)
Operating profit	2	64,834	53,439
Financial expenses	5	(1,904)	(1,388)
Financial income	5	5	–
Profit before tax	2	62,935	52,051
Income tax expense	6	(11,307)	(9,925)
Profit for the financial year		51,628	42,126
Profit for the year			
Attributable to:			
Equity shareholders of the Parent		51,958	42,503
Non-controlling interests		(330)	(377)
		51,628	42,126
Earnings per share			
Basic	7	26.29p	21.52p
Diluted	7	26.08p	21.37p
Dividend			
Pence per share	8	14.80p	12.20p
Dividends declared	8	29,250	24,105

All results relate to continuing operations.



Consolidated Statement of Comprehensive Income

for the year ended 31 December 2018

	Notes	2018 £'000	2017 £'000
Profit for the financial year		51,628	42,126
Other comprehensive income / (expense)			
<i>Items that will not be reclassified to the Income Statement:</i>			
Remeasurements of the net defined benefit asset	17	9,985	328
Deferred tax arising	19	(1,698)	(56)
Total items that will not be reclassified to the Income Statement		8,287	272
<i>Items that are or may in the future be reclassified to the Income Statement:</i>			
Effective portion of changes in fair value of cash flow hedges		528	146
Fair value of cash flow hedges transferred to the Income Statement		(668)	(385)
Deferred tax arising	19	27	35
Exchange difference on retranslation of foreign currency net investment		(208)	179
Exchange movements associated with borrowings		199	(638)
Foreign currency translation differences – non-controlling interests		(35)	371
Total items that are or may be reclassified subsequently to the Income Statement		(157)	(292)
Other comprehensive income / (expense) for the year, net of income tax		8,130	(20)
Total comprehensive income for the year		59,758	42,106
Attributable to:			
Equity shareholders of the Parent		60,123	42,112
Non-controlling interests	21	(365)	(6)
		59,758	42,106

Consolidated Balance Sheet

at 31 December 2018

	Notes	2018 £'000	2017* £'000
Assets			
Non-current assets			
Property, plant and equipment	9	190,991	169,093
Intangible assets	10	89,645	72,060
Employee benefits	17	13,516	4,127
Deferred taxation assets	19	1,406	2,775
		295,558	248,055
Current assets			
Inventories	11	84,361	77,859
Trade and other receivables	12	80,430	68,221
Cash and cash equivalents	13	45,709	19,845
Derivative financial instruments	16	276	447
		210,776	166,372
Total assets		506,334	414,427
Liabilities			
Current liabilities			
Trade and other payables	14	121,953	100,173
Corporation tax		9,683	9,299
Interest-bearing loans and borrowings	15	2,974	35
		134,610	109,507
Non-current liabilities			
Interest-bearing loans and borrowings	15	80,168	44,107
Provisions	18	7,288	8,200
Deferred taxation liabilities	19	17,553	14,986
		105,009	67,293
Total liabilities		239,619	176,800
Net assets		266,715	237,627
Equity			
Capital and reserves attributable to equity shareholders of the Parent			
Called-up share capital	20	49,998	49,845
Share premium account		24,326	22,695
Own shares		(888)	(2,359)
Capital redemption reserve		75,394	75,394
Consolidation reserve		(213,067)	(213,067)
Hedging reserve		273	386
Retained earnings		329,585	303,274
Equity attributable to equity shareholders of the Parent		265,621	236,168
Non-controlling interests	21	1,094	1,459
Total equity		266,715	237,627

* The comparatives have been restated as a result of a reassessment of the fair value of assets and liabilities acquired (Note 22).

Approved at a Directors' meeting on 14 March 2019.

On behalf of the Board:

Martyn Coffey
Chief Executive

Jack Clarke
Finance Director

The Notes on pages 90 to 123 form part of these Consolidated Financial Statements.



Consolidated Cash Flow Statement

for the year ended 31 December 2018

	Notes	2018 £'000	2017 £'000
Cash flows from operating activities			
Profit for the financial year		51,628	42,126
Income tax expense	6	11,307	9,925
Profit before tax		62,935	52,051
Adjustments for:			
Depreciation	9	14,199	13,314
Amortisation	10	1,759	1,142
Gain on sale of property, plant and equipment	3	(738)	(948)
Equity settled share-based payments		534	2,382
Financial income and expenses (net)		1,899	1,388
Operating cash flow before changes in working capital		80,588	69,329
(Increase) / decrease in trade and other receivables		(6,927)	5,334
Increase in inventories		(4,314)	(4,252)
Increase / (decrease) in trade and other payables		6,909	(320)
Operational restructuring costs paid	3	(1,244)	(1,217)
Acquisition costs paid		(594)	(193)
Cash generated from operations		74,418	68,681
Financial expenses paid		(1,308)	(911)
Income tax paid		(9,855)	(10,465)
Net cash flow from operating activities		63,255	57,305
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		1,637	3,891
Financial income received		5	–
Acquisition of subsidiary undertaking	22	(11,726)	(41,227)
Acquisition of property, plant and equipment		(27,296)	(18,895)
Acquisition of intangible assets		(1,995)	(1,750)
Net cash flow from investing activities		(39,375)	(57,981)
Cash flows from financing activities			
Proceeds from issue of share capital		1,784	–
Payments to acquire own shares		(1,210)	(1,068)
Payment in respect of share-based payment awards		(3,683)	–
Increase in debt on acquisition of subsidiaries		(4,742)	(3,407)
Net increase in other debt and finance leases		39,000	28,226
Equity dividends paid		(29,250)	(24,105)
Net cash flow from financing activities		1,899	(354)
Net increase / (decrease) in cash and cash equivalents		25,779	(1,030)
Cash and cash equivalents at the beginning of the year		19,845	20,681
Effect of exchange rate fluctuations		85	194
Cash and cash equivalents at the end of the year		45,709	19,845

Consolidated Statement of Changes in Equity

for the year ended 31 December 2018

	Attributable to equity holders of the Company									
	Share capital £'000	Share premium account £'000	Own shares £'000	Capital redemption reserve £'000	Consolidation reserve £'000	Hedging reserve £'000	Retained earnings £'000	Total £'000	Non-controlling interests £'000	Total equity £'000
Current year										
At 1 January 2018	49,845	22,695	(2,359)	75,394	(213,067)	386	303,274	236,168	1,459	237,627
Total comprehensive income for the year										
Profit for the financial year attributable to equity shareholders of the Parent	-	-	-	-	-	-	51,958	51,958	(330)	51,628
Other comprehensive income / (expense)										
Foreign currency translation differences	-	-	-	-	-	-	(9)	(9)	(35)	(44)
Effective portion of changes in fair value of cash flow hedges	-	-	-	-	-	528	-	528	-	528
Net change in fair value of cash flow hedges transferred to the Income Statement	-	-	-	-	-	(668)	-	(668)	-	(668)
Deferred tax arising	-	-	-	-	-	27	-	27	-	27
Defined benefit plan actuarial gain	-	-	-	-	-	-	9,985	9,985	-	9,985
Deferred tax arising	-	-	-	-	-	-	(1,698)	(1,698)	-	(1,698)
Total other comprehensive income	-	-	-	-	-	(113)	8,278	8,165	(35)	8,130
Total comprehensive income for the year	-	-	-	-	-	(113)	60,236	60,123	(365)	59,758
Transactions with owners, recorded directly in equity										
Contributions by and distributions to owners										
Share-based payments	-	-	-	-	-	-	(2,249)	(2,249)	-	(2,249)
Deferred tax on share-based payments	-	-	-	-	-	-	(171)	(171)	-	(171)
Corporation tax on share-based payments	-	-	-	-	-	-	426	426	-	426
Dividends to equity shareholders	-	-	-	-	-	-	(29,250)	(29,250)	-	(29,250)
Shares issued	153	1,631	-	-	-	-	-	1,784	-	1,784
Purchase of own shares	-	-	(1,210)	-	-	-	-	(1,210)	-	(1,210)
Disposal of own shares	-	-	2,681	-	-	-	(2,681)	-	-	-
Total contributions by and distributions to owners	153	1,631	1,471	-	-	-	(33,925)	(30,670)	-	(30,670)
Total transactions with owners of the Company	153	1,631	1,471	-	-	(113)	26,311	29,453	(365)	29,088
At 31 December 2018	49,998	24,326	(888)	75,394	(213,067)	273	329,585	265,621	1,094	266,715



	Attributable to equity holders of the Company									
	Share capital £'000	Share premium account £'000	Own shares £'000	Capital redemption reserve £'000	Consolidation reserve £'000	Hedging reserve £'000	Retained earnings £'000	Total £'000	Non-controlling interests £'000	Total equity £'000
Prior year										
At 1 January 2017	49,845	22,695	(3,622)	75,394	(213,067)	590	283,821	215,656	1,465	217,121
Total comprehensive income for the year										
Profit for the financial year attributable to equity shareholders of the Parent	-	-	-	-	-	-	42,503	42,503	(377)	42,126
Other comprehensive income / (expense)										
Foreign currency translation differences	-	-	-	-	-	-	(459)	(459)	371	(88)
Effective portion of changes in fair value of cash flow hedges	-	-	-	-	-	146	-	146	-	146
Net change in fair value of cash flow hedges transferred to the Income Statement	-	-	-	-	-	(385)	-	(385)	-	(385)
Deferred tax arising	-	-	-	-	-	35	-	35	-	35
Defined benefit plan actuarial gain	-	-	-	-	-	-	328	328	-	328
Deferred tax arising	-	-	-	-	-	-	(56)	(56)	-	(56)
Total other comprehensive income	-	-	-	-	-	(204)	(187)	(391)	371	(20)
Total comprehensive income for the year	-	-	-	-	-	(204)	42,316	42,112	(6)	42,106
Transactions with owners, recorded directly in equity										
Contributions by and distributions to owners										
Share-based payments	-	-	-	-	-	-	2,382	2,382	-	2,382
Deferred tax on share-based payments	-	-	-	-	-	-	885	885	-	885
Corporation tax on share-based payments	-	-	-	-	-	-	306	306	-	306
Dividends to equity shareholders	-	-	-	-	-	-	(24,105)	(24,105)	-	(24,105)
Purchase of own shares	-	-	(1,068)	-	-	-	-	(1,068)	-	(1,068)
Disposal of own shares	-	-	2,331	-	-	-	(2,331)	-	-	-
Total contributions by and distributions to owners	-	-	1,263	-	-	-	(22,863)	(21,600)	-	(21,600)
Total transactions with owners of the Company	-	-	1,263	-	-	(204)	19,453	20,512	(6)	20,506
At 31 December 2017	49,845	22,695	(2,359)	75,394	(213,067)	386	303,274	236,168	1,459	237,627

Notes to the Consolidated Financial Statements

1 Accounting policies

Significant accounting policies

Marshall's plc (the "Company") is a Public Company limited by shares, incorporated in the United Kingdom under the Companies Act and is registered in England and Wales. The Consolidated Financial Statements of the Company for the year ended 31 December 2018 comprise the Company and its subsidiaries (together referred to as the "Group").

The Consolidated Financial Statements were authorised for issue by the Directors on 14 March 2019.

The Company's registered address is Landscape House, Premier Way, Lowfields Business Park, Elland, HX5 9HT.

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

The Consolidated Financial Statements have been prepared in accordance with IFRSs as adopted for use in the EU and therefore the Group Financial Statements comply with Article 4 of the EU IAS Regulations. The Group has applied all accounting standards and interpretations issued by the IASB and International Financial Reporting Committee relevant to its operations and which are effective in respect of these Financial Statements.

Adoption of new standards in 2018

IFRS 15, "*Revenue from Contracts with Customers*" superseded IAS 18, "*Revenue*", and has been adopted from 1 January 2018. IFRS 15 establishes a principles-based approach to revenue recognition and measurement based on the concept of recognising revenue when performance obligations are satisfied. The adoption has not had any material impact on the disclosures or on the amounts reported in these Consolidated Financial Statements.

IFRS 9, "*Financial Instruments*", has been adopted from 1 January 2018. IFRS 9 has introduced new classification and measurements requirements for financial assets and financial liabilities. These changes have not had a material impact on the Group's Financial Statements.

Amendments to IFRSs that are mandatorily effective for the current year

In the current year, the Group has applied a number of amendments to IFRSs issued by the International Accounting Standards Board ("IASB") that are mandatorily effective for an accounting period that begins on or after 1 January 2018. Their adoption has not had any material impact on the disclosures or on the amounts reported in these Consolidated Financial Statements.

Amendments to IFRS 2: " <i>Classification and Measurement of Share-based Payment Transactions</i> ."	<p>The amendments clarify the following:</p> <ul style="list-style-type: none"> a) In estimating the fair value of a cash settled share-based payment, the accounting for the effects of vesting and non-vesting conditions should follow the same approach as for equity settled share-based payments; b) Where tax law or regulation requires an entity to withhold a specified number of equity instruments equal to the monetary value of the employee's tax obligation to meet the employee's tax liability which is then remitted to the tax authority (typically in cash), i.e. the share-based payment arrangement has a "net settlement feature", such an arrangement should be classified as equity settled in its entirety, provided that the share-based payment would have been classified as equity settled had it not included the net settlement feature; and c) How the modification of a share-based payment that changes the transaction from cash settled to equity settled should be accounted for.
Amendments to IAS 40: " <i>Transfers of Investment Property</i> ."	<p>The Group has adopted the amendments to IAS 40, "<i>Transfers of Investment Property</i>", for the first time in the current year. The amendments clarify that a transfer to, or from, investment property necessitates an assessment of whether a property meets, or has ceased to meet, the definition of investment property, supported by observable evidence that a change in use has occurred. The amendments further clarify that the situations listed in IAS 40 are not exhaustive and that a change in use is possible for properties under construction (i.e. a change in use is not limited to completed properties).</p>
"Annual Improvements to IFRSs 2014-2016 Cycle."	<p>The Group has adopted the amendments to IAS 28 included in the "<i>Annual Improvements to IFRS Standards 2014-2016 Cycle</i>" for the first time in the current year. The amendments clarify that the option for a venture capital organisation and other similar entities to measure investments in associates and joint ventures at FVTPL is available separately for each associate or joint venture, and that election should be made at initial recognition. In respect of the option for an entity that is not an investment entity ("IE") to retain the fair value measurement applied by its associates and joint ventures that are IEs when applying the equity method, the amendments make a similar clarification that this choice is available for each IE associate or IE joint venture.</p>
IFRIC 22 Foreign Currency " <i>Transactions and Advance Consideration</i> ."	<p>IFRIC 22 addresses how to determine the "date of transaction" for the purpose of determining the exchange rate to use on initial recognition of an asset, expense or income, when consideration for that item has been paid or received in advance in a foreign currency which resulted in the recognition of a non-monetary asset or non-monetary liability (for example, a non-refundable deposit or deferred revenue).</p> <p>The Interpretation specifies that the date of transaction is the date on which the entity initially recognises the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance, the Interpretation requires an entity to determine the date of transaction for each payment or receipt of advance consideration.</p>



1 Accounting policies *continued*

Significant accounting policies *continued*

New and revised IFRSs in issue but not yet effective

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

IFRS 9 (amendments)	"Prepayment Features with Negative Compensation" (effective 1 January 2019)
IAS 28 (amendments)	"Long-term Interests in Associates and Joint Ventures" (effective 1 January 2019)
IAS 19 (amendments)	"Plan Amendment, Curtailment or Settlement" (effective 1 January 2019)
IFRS 17	"Insurance Contracts" (effective 1 January 2021)
IAS 1 and IAS 8	"Definition of Material" (effective 1 January 2020)
IAS Conceptual Framework	"Definition of Material" (effective 1 January 2020)
"Annual Improvements to IFRSs 2015 - 2017 Cycle"	Amendments to IFRS 3 "Business Combinations", IFRS 11 "Joint Arrangements", IAS 12 "Income Tax" and IAS 23 "Borrowing Costs" (effective 1 January 2019)
IFRIC 23	"Uncertainty over Income Tax Treatments" (effective 1 January 2019)

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

IFRS 16 "Leases"

IFRS 16 is effective from 1 January 2019 and replaces IAS 17 "Leases" and related interpretations. It will result in almost all leases being recognised on the balance sheet by lessees, as the distinction between operating and finance leases is removed.

IFRS 16 distinguishes leases and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases (off balance sheet) and finance leases (on balance sheet) are removed for lessee accounting, and are replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees (i.e. all on balance sheet) except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. Furthermore, the classification of cash flows will also be affected because operating lease payments under IAS 17 are presented as operating cash flows, whereas under the IFRS 16 model, the lease payments will be split into a principal and an interest portion which will be presented as financing and operating cash flows respectively.

In adopting IFRS 16 from 1 January 2019, the Group is applying the modified retrospective transition approach and will not restate comparative amounts for the year ended 31 December 2018. For certain leases the Group has elected to measure the right-of-use asset as if IFRS 16 had been applied since the start of the lease, but using the incremental borrowing rate at 1 January 2019, with the difference between the right-of-use asset and the lease liability taken to retained earnings. In other cases, the Group is electing to measure right-of-use assets at the amount of the lease liability on adoption (adjusted for any lease prepayments or accrued lease expenses, onerous lease provisions and leased assets which have subsequently been sub-leased). The Group has elected to adopt the following practical expedients on transition:

- where an onerous lease provision is in existence, to utilise this provision to reduce the right-of-use asset value rather than undertaking an impairment review;
- to use hindsight in determining the lease term;
- to exclude initial direct costs from the measurement of the right-of-use asset; and
- to apply the portfolio approach where a group of leases has similar characteristics.

Impact of adoption of IFRS 16 "Leases"

Upon transition on 1 January 2019, the Group will recognise a right-of-use lease asset that is expected to be between £42 million and £47 million and a financial lease liability that is expected to be between £44 million and £51 million. A transition adjustment that is expected to be between £2 million and £4 million will be taken to retained earnings along with an opening deferred taxation adjustment.

The change in presentation, as a result of the adoption of IFRS 16, will see an improvement in cash flow generated from operating activities, offset by a corresponding decline in cash flow from financing activities. There is no overall cash flow impact from the adoption of the new standard.

Depreciation of the right-of-use asset will be recognised in the Income Statement on a straight line basis, with interest recognised on the lease liability. This will result in a change to the profile of the net charge taken to the Income Statement over the life of the lease. These charges will replace the lease costs currently charged to the Income Statement.

The Group results announcement for the half year ending 30 June 2019 will be the first to be prepared under IFRS 16.

As at 31 December 2018, the Group has non-cancellable operating lease commitments of £66.5 million. IAS 17 does not require the recognition of any right-of-use asset or liability for future payments for these leases; instead, certain information is disclosed as operating lease commitments in Note 25.



Notes to the Consolidated Financial Statements *continued*

1 Accounting policies *continued*

Significant accounting policies *continued*

(a) Statement of compliance

The Group's Consolidated Financial Statements have been prepared and approved by the Directors in accordance with International Financial Reporting Standards as adopted by the European Union ("adopted IFRSs"). The Parent Company has elected to prepare its Financial Statements in accordance with FRS 101 and these are presented on pages 124 to 131.

(b) Basis of preparation

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report on pages 2 to 37. 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 16 includes the Group's policies and procedures for managing its capital; its financial risk management objectives; details of its financial instruments; and its exposures to credit risk and liquidity risk.

Details of the Group's funding position are set out in Note 16 and are subject to normal covenant arrangements. The Group's on-demand overdraft facility is reviewed on an annual basis and the current arrangements were renewed and signed on 9 August 2018. In the opinion of the Directors there are sufficient unutilised facilities held which mature after 12 months. The Group's performance is dependent on economic and market conditions, the outlook for which is difficult to predict. Based on current expectations, the Group's cash forecasts continue to meet half year and year-end bank covenants and there is adequate headroom which is not dependent on facility renewals. The Directors believe that the Group is well placed to manage its business risks successfully. Accordingly, they continue to adopt the going concern basis in preparing the Consolidated Financial Statements.

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

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

The Consolidated Financial Statements are presented in Sterling, rounded to the nearest thousand. Sterling is the currency of the primary economic environment in which the Group operates.

The preparation of Financial Statements in conformity with adopted IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. These are set out in Note 28 on page 123. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

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

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

(c) Basis of consolidation

(i) Subsidiaries

Subsidiaries (which are set out in detail in Note 32 on pages 128 and 129) are entities controlled by the Company. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to 1 or more of the 3 elements of control listed above. When the Company has less than a majority of the voting rights of an investee, it considers that it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Company considers all relevant facts and circumstances in assessing whether or not the Company's voting rights in an investee are sufficient to give it power, including:

- the size of the Company's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Company, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Company has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, the results of subsidiaries acquired or disposed of during the year are included in the Consolidated Income Statement from the date the Company gains control until the date when the Company ceases to control the subsidiary.



1 Accounting policies *continued*

Significant accounting policies *continued*

(c) Basis of consolidation *continued*

(ii) Associates (equity-accounted investees)

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

(iii) Transactions eliminated on consolidation

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

(iv) Non-controlling interests

Non-controlling interests in subsidiaries are identified separately from the Group's equity therein. Those interests of non-controlling shareholders that are present ownership interests, entitling their holders to a proportionate share of net assets, are initially measured at the non-controlling interests' proportionate share of the acquiree's identifiable net assets. Subsequent to acquisition, the carrying amount of non-controlling interests is the amount of those interests at the initial recognition plus the non-controlling interests' share of subsequent changes in equity. Total comprehensive income is attributed to non-controlling interests even if this results in the non-controlling interests having a deficit balance.

(d) Foreign currency transactions

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

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

(e) Derivative financial instruments

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

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

The Group has applied IFRS 9 from 1 January 2018. The Group has elected not to restate comparatives on initial application of IFRS 9.

Classification and measurement

The classification of financial assets is based both on the business model within which the asset is held and the contractual cash flow characteristics of the asset. There are 3 principal classification categories for financial assets that are debt instruments: (i) amortised cost, (ii) fair value through other comprehensive income ("FVTOCI") and (iii) fair value through profit or loss ("FVTPL"). Equity investments in scope of IFRS 9 are measured at fair value with gains and losses recognised in profit or loss unless an irrevocable election is made to recognise gains or losses in other comprehensive income. Under IFRS 9, derivatives embedded in financial assets are not bifurcated but instead the whole hybrid contract is assessed for classification.

Under IFRS 9, financial assets can be designated as at FVTPL to mitigate an accounting mismatch.

In respect to classification and measurement of financial liabilities, changes in the fair value of a financial liability designated as at FVTPL due to credit risk are presented in other comprehensive income unless such presentation would create or enlarge an accounting mismatch in profit or loss.

The change in the classification and measurement of listed redeemable notes has not had a material impact on the Group Financial Statements.

Impairment

Credit losses and expected credit losses are recognised in accordance with IFRS 9. The amount of expected credit losses are updated at each reporting date.

The IFRS 9 impairment model has been applied to the Group's financial assets that are debt instruments measured at amortised cost or FVTOCI as well as the Group's finance lease receivables, contract assets and issued financial guarantee contracts.

The Group has applied the simplified approach to recognise lifetime expected credit losses for its trade receivables, finance lease receivables and contracts assets as required or permitted by IFRS 9. The loss allowance for these assets as at 1 January 2018 was not significantly different to that under IAS 39.



Notes to the Consolidated Financial Statements *continued***1 Accounting policies** *continued***Significant accounting policies** *continued***(f) Hedging**

The Group has elected to apply the IFRS 9 hedge accounting requirements because they align more closely with the Group's risk management policies. An assessment of the Group's hedging relationships under IAS 39 was performed and it was determined that the relationships will qualify as continuing hedging relationships under IFRS 9.

(i) Cash flow hedges

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability, or a highly probable 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 (iv) below) and impairment losses (see accounting policy (m)). The cost of self-constructed assets includes the cost of materials, direct labour and an appropriate proportion of directly attributable production overheads.

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

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

(ii) Leased assets

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

(iii) Subsequent costs

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

(iv) Depreciation

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

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

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

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

- costs of clearing the site (including internal and outsourced labour in relation to site workers);
- professional fees (including fees relating to obtaining planning consent);



1 Accounting policies *continued*

Significant accounting policies *continued*

(g) Property, plant and equipment *continued*

(iv) Depreciation *continued*

- purchase, installation and assembly of any necessary extraction equipment; and
- costs of testing whether the extraction process is functioning properly (net of any sales of test products).

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

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

(h) Intangible assets

(i) Goodwill

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

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

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

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

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

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

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

In respect of business acquisitions that have occurred since 1 January 2004, goodwill represents the difference between the cost of the acquisition and the fair value of the net identifiable assets and contingent liabilities acquired. The classification and accounting treatment relating to the acquisition of CPM Group Limited on 19 October 2017 was adjusted in preparing the Group's opening IFRS balance sheet at 1 January 2018. Further details of this business combination is included in Note 22.

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

Goodwill is subsequently stated at cost less any accumulated impairment losses. Goodwill is allocated to cash generating units and is tested annually for impairment (see accounting policy (m)). In respect of equity-accounted investees, the carrying amount of goodwill is included in the carrying amount of the investment in the investee.

In respect of acquisitions where there is a contingent consideration element, an accrual is created for the estimated amount payable if it is probable that an outflow of economic benefits will be required to settle the obligation and this can be measured reliably.

(ii) Research and development

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

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

(iii) Other intangible assets

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

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

(iv) Subsequent expenditure

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



Notes to the Consolidated Financial Statements *continued***1 Accounting policies** *continued***Significant accounting policies** *continued***(h) Intangible assets** *continued***(v) Amortisation**

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

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

(i) Trade and other receivables

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

(j) Inventories

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

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

(k) Cash and cash equivalents

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

(l) Assets classified as held for sale

Assets classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell. Assets are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and expected to be completed within 1 year from the date of classification, and the asset is available for immediate sale in its present condition.

(m) Impairment**(i) Impairment review**

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

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

An impairment loss is recognised whenever the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. Impairment losses are recognised in the Consolidated Income Statement.

Impairment losses recognised in respect of cash generating units are allocated first to reduce the carrying amount of any goodwill allocated to cash generating units and then to reduce the carrying amount of the other assets in the unit on a pro-rata basis. A cash generating unit is the group of assets identified on acquisition that generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

The recoverable amount of assets or cash generating units is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash generating unit to which the asset belongs.

(ii) Reversals of impairments

An impairment loss in respect of goodwill is not reversed. In respect of other assets, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(n) Share capital**(i) Share capital**

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



1 Accounting policies *continued*

Significant accounting policies *continued*

(n) Share capital *continued*

(ii) Dividends

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

(o) Interest-bearing borrowings

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

(p) Pension schemes

(i) Defined benefit schemes

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

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

When the benefits of the scheme are improved, the portion of the increased benefit relating to past service by employees is recognised as an expense in the Income Statement in the period of the scheme amendment.

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

(ii) Defined contribution schemes

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

(q) Share-based payment transactions

The Group enters into equity settled share-based payment transactions with its employees. In particular, annual awards are made to employees under the Company's Management Incentive Plan ("MIP").

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

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

(r) Own shares held by the Employee Benefit Trust

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

(s) Provisions

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

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

(t) Trade and other payables

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

(u) Revenue

Revenue from the sale of goods is recognised in the Consolidated Income Statement upon the despatch of goods, when the performance obligations to customers have been satisfied. Revenue represents the invoiced value of sales to customers less returns, allowances, rebates and value added tax.

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

Notes to the Consolidated Financial Statements *continued***1 Accounting policies** *continued***Significant accounting policies** *continued***(v) Expenses****(i) Operating lease payments**

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

(ii) Finance lease payments

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

(iii) Financial expenses

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

(w) Income tax

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

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

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

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

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

(x) Segment reporting

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

(y) Alternative performance measures

The Group uses alternative performance measures ("APMs") which are not defined or specified under IFRS. The Group believes that these APMs, which are not considered to be a substitute for IFRS measures, provide additional helpful information. APMs are consistent with how business performance is planned, reported and assessed internally by management and the Board and provide more meaningful comparative information. In relation to the year ended 31 December 2018 certain APMs are required as a consequence of the acquisition of Edenhall on 11 December 2018 in order to ensure comparability with the prior period. In relation to the year ended 31 December 2017 certain APMs are required as a consequence of the acquisition of CPM on 19 October 2017.

Like-for-like revenue growth

Management uses like-for-like revenue growth as it provides a consistent measure of the percentage increase / decrease in revenue year-on-year, excluding the effect of acquisitions.

	2018 £'000	2017 £'000	Increase %
Reported revenue	490,988	430,194	14%
Edenhall post-acquisition revenue	(675)	–	
Like-for-like revenue	490,313	430,194	14%

EBITA and EBITDA

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



1 Accounting policies *continued*

Significant accounting policies *continued*

(y) Alternative performance measures *continued*

EBITA and EBITDA *continued*

	2018 £'000	2017 £'000	Increase %
EBITDA	80,792	67,895	19%
Depreciation	(14,199)	(13,314)	
EBITA	66,593	54,581	
Amortisation of intangible assets	(1,759)	(1,142)	
Operating profit	64,834	53,439	21%

ROCE

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

	2018 £'000	2017 £'000
EBITA	66,593	54,581
Shareholders' funds	266,715	237,627
Net debt	37,433	24,297
	304,148	261,924
Reported ROCE	21.9%	20.8%

ROCE on a like-for-like basis (excluding the impact of acquisitions) includes adjustments to report the calculation on a basis that eliminates the impact of the acquisition of Edenhall in 2018 and CPM in 2017. This ensures comparability with the prior year period.

	2018 £'000	2017 £'000
Reported EBITA	66,593	54,581
Post-acquisition EBIT	(21)	(749)
Amortisation of intangible assets in year of acquisition	17	132
Acquisition costs	375	837
Adjusted EBITA	66,964	54,801
Shareholders' funds	266,715	237,627
Net debt	37,433	24,297
	304,148	261,924
Impact on net debt arising from the acquisitions in the year	(16,468)	(41,227)
As adjusted	287,680	220,697
ROCE on a like-for-like basis (excluding the impact of acquisitions)	23.3%	24.8%

2 Segmental analysis

Segment revenues and results

	2018			2017		
	Landscape Products £'000	Other £'000	Total £'000	Landscape Products £'000	Other £'000	Total £'000
Total revenue	398,128	96,943	495,071	339,655	94,622	434,277
Inter-segment revenue	(228)	(3,855)	(4,083)	(226)	(3,857)	(4,083)
External revenue	397,900	93,088	490,988	339,429	90,765	430,194
Segment operating profit	68,418	2,095	70,513	56,104	1,873	57,977
Unallocated administration costs			(5,679)			(4,538)
Operating profit			64,834			53,439
Finance charges (net)			(1,899)			(1,388)
Profit before tax			62,935			52,051
Taxation			(11,307)			(9,925)
Profit after tax			51,628			42,126



Notes to the Consolidated Financial Statements *continued***2 Segmental analysis** *continued***Segment revenues and results** *continued*

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

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

Included in "Other" are the Group's Street Furniture, Mineral Products, Premier Mortars and International operations, which do not currently meet the IFRS 8 reporting requirements. Following the acquisition, the Edenhall business has been included within "Other".

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

Segment assets

	2018 £'000	2017* £'000
Fixed assets and inventory:		
Landscape Products	201,489	182,391
Other	73,863	64,561
Total segment fixed assets and inventory	275,352	246,952
Unallocated assets	230,982	167,475
Consolidated total assets	506,334	414,427

* The comparatives have been restated as a result of a reassessment of the fair value of assets and liabilities acquired (Note 22).

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	
	2018 £'000	2017 £'000	2018 £'000	2017 £'000
Landscape Products	13,251	10,878	21,060	17,041
Other	2,707	3,578	6,256	5,445
	15,958	14,456	27,316	22,486

Geographical destination of revenue

	2018 £'000	2017 £'000
United Kingdom	467,032	407,215
Rest of the world	23,956	22,979
	490,988	430,194

The Group's revenue is subject to seasonal fluctuations resulting from demand from customers. In particular, demand is higher in the summer months. The Group manages the seasonal impact through the use of a seasonal working capital facility.



3 Net operating costs

	2018 £'000	2017 £'000
Raw materials and consumables	172,175	151,343
Changes in inventories of finished goods and work in progress	6,267	7,231
Personnel costs (Note 4)	116,588	100,811
Depreciation	14,199	13,314
Amortisation of intangible assets	1,759	1,142
Own work capitalised	(3,340)	(1,919)
Other operating costs	120,187	106,569
Operational restructuring costs	1,244	1,217
Acquisition costs	375	837
Operating costs	429,454	380,545
Other operating income	(2,562)	(2,842)
Net gain on asset and property disposals	(738)*	(948)
Net operating costs	426,154	376,755

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

	2018 £'000	2017 £'000
Net operating costs include:		
Auditor's remuneration (see below)	247	211
Leasing costs	12,522	11,465
Hire of plant and machinery	4,838	4,651
Research and development costs	4,927	3,876

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

	2018 £'000	2017 £'000
Audit of Financial Statements of Marshalls plc	30	25
Audit of Financial Statements of subsidiaries of the Company	173	166
Half yearly review of Marshalls plc	20	20
Other assurance services	24	–
	247	211

4 Personnel costs

	2018 £'000	2017 £'000
Personnel costs (including amounts charged in the year in relation to Directors):		
Wages and salaries	97,417	80,811
Social security costs	10,341	9,617
Share-based payments	1,789	3,883
Contributions to defined contribution pension scheme	7,041	6,500
Included within net operating costs (Note 3)	116,588	100,811
Personnel costs relating to restructuring (Note 3)	634	1,217
Total personnel costs	117,222	102,028

Notes to the Consolidated Financial Statements *continued***4 Personnel costs** *continued*

	2018 £'000	2017 £'000
Remuneration of Directors:		
Salary	737	712
Other benefits	45	39
MIP Element A bonus	823	535
MIP Element B bonus	362	356
Amounts receivable under the MIP at the end of the first cycle	505	2,024
Salary supplement in lieu of pension	147	142
Non-Executive Directors' fees and fixed allowances	320	299
	2,939	4,107

The aggregate of emoluments and amounts receivable under the MIP of the highest paid Director was £1,602,000 (2017: £2,383,000), including a salary supplement in lieu of pension of £89,000 (2017: £86,000).

There are no Directors to whom retirement benefits are accruing in respect of qualifying services. As set out in the Annual Remuneration Report on page 69, the Executive Directors receive a salary supplement in lieu of pension equal to their contractual entitlement of 20 per cent of basic salary.

Further details of Directors' remuneration, share options, long-term incentive plans and Directors' pension entitlements are disclosed in the Annual Remuneration Report on pages 69 to 72.

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

	2018 Number	2017 Number
Continuing operations	2,640	2,307

5 Financial expenses and income

	2018 £'000	2017 £'000
(a) Financial expenses		
Net interest expense on defined benefit pension scheme	496	377
Interest expense on bank loans, overdrafts and loan notes	1,403	1,005
Finance lease interest expense	5	6
	1,904	1,388
(b) Financial income		
Interest receivable and similar income	5	–

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

6 Income tax expense

	2018 £'000	2017 £'000
Current tax expense		
Current year	11,269	11,554
Adjustments for prior years	(934)	(732)
	10,335	10,822
Deferred taxation expense		
Origination and reversal of temporary differences:		
Current year	921	(797)
Adjustments for prior years	51	(100)
Total tax expense	11,307	9,925



6 Income tax expense *continued*

	2018 %	2018 £'000	2017 %	2017 £'000
Reconciliation of effective tax rate				
Profit before tax	100.0	62,935	100.0	52,051
Tax using domestic corporation tax rate	19.0	11,957	19.3	10,020
Impact of capital allowances in excess of depreciation	(0.6)	(402)	0.3	184
Short-term timing differences	0.9	595	1.2	630
Adjustment to tax charge in prior year	(1.5)	(934)	(1.4)	(732)
Expenses not deductible for tax purposes	(1.4)	(881)	1.4	720
Corporation tax charge for the year	16.4	10,335	20.8	10,822
Impact of capital allowances in excess of depreciation	(0.2)	(130)	(1.2)	(618)
Short-term timing differences	1.8	1,139	(0.2)	(103)
Pension scheme movements	(0.2)	(101)	(0.1)	(77)
Other items	0.5	300	1.0	532
Adjustment to tax charge in prior year	0.1	51	(0.2)	(100)
Impact of the change in the rate of corporation tax on deferred taxation	(0.4)	(287)	(1.0)	(531)
Total tax charge for the year	18.0	11,307	19.1	9,925

The net amount of deferred taxation (debited) / credited to the Consolidated Statement of Comprehensive Income in the year was £1,671,000 debit (2017: £21,000 debit).

The majority of the Group's profits are earned in the UK with the standard rate of corporation tax being 19.0 per cent for the year to 31 December 2018.

Capital allowances are tax reliefs provided in law for the expenditure the Group makes on fixed assets. The rates are determined by Parliament annually, and spread the tax relief due over a number of years. This contrasts with the accounting treatment for such spending, where the expenditure on fixed assets is treated as an investment with the cost then being spread over the anticipated useful life of the asset, and / or impaired if the value of such assets is considered to have reduced materially.

The different accounting treatment of fixed assets for tax and accounting purposes is one reason why the taxable income of the Group is not the same as its accounting profit. During the year ended 31 December 2018 the depreciation charge for the year exceeded the capital allowances due to the Group.

Short-term timing differences arise on items such as depreciation in stock and share-based payments because the treatment of such items is different for tax and accounting purposes. These differences usually reverse in the years following those in which they arise, as is reflected in the deferred tax charge in the Financial Statements.

Adjustments to tax charges arising in earlier years arise because the tax charge to be included in a set of accounts has to be estimated before those Financial Statements are finalised. Such charges therefore include some estimates that are checked and refined before the Group's corporation tax returns for the year are submitted to HM Revenue & Customs, which may reflect a different liability as a result.

Some expenses incurred may be entirely appropriate charges for inclusion in the Financial Statements but are not allowed as a deduction against taxable income when calculating the Group's tax liability for the same accounting period. Examples of such disallowable expenditure include business entertainment costs and some legal expenses.

Additional shares vesting in March 2018 have impacted corporation tax (in expenses not deductible for tax purposes) and deferred tax (in short-term timing differences).

As can be seen from the tax reconciliation, the process of adjustment that can give rise to current year adjustments to tax charges arising in previous periods can also give rise to revisions in prior year deferred tax estimates. This is why the current year adjustments to the current year charge for capital allowances and short-term timing differences are not exactly replicated in the deferred taxation charge for the year.

The Group's overseas operations comprise a manufacturing operation in Belgium and sales and administration offices in the USA, China and Dubai. The sales of these units, in total, were less than 5 per cent of the Group's turnover in the year ended 31 December 2018. In total, the trading profits were not material and no tax was due.

7 Earnings per share

Basic earnings per share of 26.29 pence (2017: 21.52 pence) per share is calculated by dividing the profit attributable to Ordinary Shareholders for the financial year, after adjusting for non-controlling interests, of £51,958,000 (2017: £42,503,000) by the weighted average number of shares in issue during the period of 197,669,293 (2017: 197,518,109).

Notes to the Consolidated Financial Statements *continued***7 Earnings per share** *continued***Profit attributable to Ordinary Shareholders**

	2018 £'000	2017 £'000
Profit for the financial year	51,628	42,126
Loss attributable to non-controlling interests	330	377
Profit attributable to Ordinary Shareholders	51,958	42,503

Weighted average number of Ordinary Shares

	2018 Number	2017 Number
Number of issued Ordinary Shares	199,419,571	199,378,755
Effect of shares transferred into Employee Benefit Trust	(1,750,278)	(1,860,646)
Weighted average number of Ordinary Shares at the end of the year	197,669,293	197,518,109

Diluted earnings per share of 26.08 pence (2017: 21.37 pence) per share is calculated by dividing the profit for the financial year, after adjusting for non-controlling interests, of £51,958,000 (2017: £42,503,000) by the weighted average number of shares in issue during the period of 197,669,293 (2017: 197,518,109) plus potentially dilutive shares of 1,548,929 (2017: 1,384,707), which totals 199,218,222 (2017: 198,902,816).

Weighted average number of Ordinary Shares (diluted)

	2018 Number	2017 Number
Weighted average number of Ordinary Shares	197,669,293	197,518,109
Potentially dilutive shares	1,548,929	1,384,707
Weighted average number of Ordinary Shares (diluted)	199,218,222	198,902,816

8 Dividends

After the balance sheet date a final dividend of 8.00 pence (2017: 6.80 pence) per qualifying Ordinary Share was proposed by the Directors. In addition a supplementary dividend of 4.00 pence (2017: 4.00 pence) per qualifying Ordinary Share was proposed by the Directors. These dividends have not been provided for and there are no income tax consequences. The total dividends proposed in respect of the year are as follows:

	Pence per qualifying share	2018 £'000	2017 £'000
2018 supplementary	4.00	7,930	
2018 final	8.00	15,860	
2018 interim	4.00	7,906	
	16.00	31,696	
2017 supplementary	4.00		7,904
2017 final	6.80		13,436
2017 interim	3.40		6,718
	14.20		28,058

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

	Pence per qualifying share	2018 £'000	2017 £'000
2018 interim	4.00	7,906	
2017 supplementary	4.00	7,905	
2017 final	6.80	13,439	
	14.80	29,250	
2017 interim	3.40		6,718
2016 supplementary	3.00		5,927
2016 final	5.80		11,460
	12.20		24,105



8 Dividends *continued*

The Board recommends a 2018 final dividend of 8.00 pence per qualifying Ordinary Share (amounting to £15,860,000), alongside a supplementary dividend of 4.00 pence per qualifying Ordinary Share (amounting to £7,930,000), to be paid on 28 June 2019 to shareholders registered at the close of business on 7 June 2019.

9 Property, plant and equipment

	Land and buildings £'000	Quarries £'000	Plant, machinery and vehicles £'000	Total £'000
Cost				
At 1 January 2017	83,680	23,397	323,476	430,553
Exchange differences	311	–	223	534
Additions	2,509	67	18,160	20,736
Acquisition of subsidiary	8,437	–	7,639	16,076
Disposals	(1,281)	–	(2,629)	(3,910)
At 31 December 2017	93,656	23,464	346,869	463,989
At 1 January 2018	93,656	23,464	346,869	463,989
Exchange differences	124	–	88	212
Additions	7,053	3,481	14,787	25,321
Acquisition of subsidiary	3,915	–	7,116	11,031
Reclassification	(1,744)	1,744	–	–
Disposals	(313)	–	(445)	(758)
At 31 December 2018	102,691	28,689	368,415	499,795
Depreciation and impairment losses				
At 1 January 2017	37,016	7,823	238,719	283,558
Depreciation charge for the year	1,829	583	10,902	13,314
Exchange differences	7	–	132	139
Disposals	(26)	–	(2,089)	(2,115)
At 31 December 2017	38,826	8,406	247,664	294,896
At 1 January 2018	38,826	8,406	247,664	294,896
Depreciation charge for the year	1,756	228	12,215	14,199
Exchange differences	4	–	84	88
Disposals	(13)	–	(366)	(379)
At 31 December 2018	40,573	8,634	259,597	308,804
Net book value				
At 1 January 2017	46,664	15,574	84,757	146,995
At 31 December 2017	54,830	15,058	99,205	169,093
At 31 December 2018	62,118	20,055	108,818	190,991

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

The carrying amount of tangible fixed assets includes £402,000 (2017: £402,000) of land assets and £1,175,000 (2017: £nil) of plant and machinery held under finance leases. Group cost of land and buildings and plant and machinery includes £1,926,000 (2017: £1,484,000) and £16,779,000 (2017: £7,105,000) respectively for assets in the course of construction.

Notes to the Consolidated Financial Statements *continued***9 Property, plant and equipment** *continued***Capital commitments**

	2018 £'000	2017 £'000
Capital expenditure that has been contracted for but for which no provision has been made in the Consolidated Financial Statements	4,635	5,058

Depreciation charge

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

	2018 £'000	2017 £'000
Net operating costs (Note 3)	14,199	13,314

10 Intangible assets

	Goodwill* £'000	Customer relationships £'000	Supplier relationships £'000	Patents, trademarks and know-how £'000	Development costs £'000	Software £'000	Total £'000
Cost							
At 1 January 2017	43,691	2,210	1,200	1,660	159	12,610	61,530
Additions	–	–	–	–	–	1,750	1,750
Recognised on acquisition of subsidiary	24,126	6,704	429	100	–	–	31,359
At 31 December 2017	67,817	8,914	1,629	1,760	159	14,360	94,639
At 1 January 2018	67,817	8,914	1,629	1,760	159	14,360	94,639
Additions	1,419	–	–	–	–	1,995	3,414
Recognised on acquisition of subsidiary	12,033	3,897	–	–	–	–	15,930
At 31 December 2018	81,269	12,811	1,629	1,760	159	16,355	113,983
Amortisation and impairment losses							
At 1 January 2017	8,912	2,210	788	1,398	101	8,028	21,437
Amortisation for the year	–	121	69	34	8	910	1,142
At 31 December 2017	8,912	2,331	857	1,432	109	8,938	22,579
At 1 January 2018	8,912	2,331	857	1,432	109	8,938	22,579
Amortisation for the year	–	670	103	42	8	936	1,759
At 31 December 2018	8,912	3,001	960	1,474	117	9,874	24,338
Carrying amounts							
At 1 January 2017	34,779	–	412	262	58	4,582	40,093
At 31 December 2017	58,905	6,583	772	328	50	5,422	72,060
At 31 December 2018	72,357	9,810	669	286	42	6,481	89,645

* The comparatives have been restated as a result of a reassessment of the fair values of assets and liabilities acquired (Note 22).

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



10 Intangible assets *continued*

The recoverable amounts of the CGUs are determined from value-in-use calculations and at both 31 December 2018 and 31 December 2017 the full amount of goodwill in the Group Balance Sheet related to the Landscape Products CGU. The goodwill arising on the acquisition of Edenhall is included within the Landscape Products CGU. These calculations use cash flow projections based on a combination of individual financial 3-year forecasts, containing assumptions for revenue growth and operational gearing, and appropriate long-term growth rates of 2.45 per cent. To prepare value-in-use calculations, the cash flow forecasts are discounted back to present value using an appropriate market-based discount rate. The pre-tax discount rate used to calculate the value in use was 8.2 per cent (2017: 9.8 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 £915,000 (2017: £910,000) of own work capitalised.

Amortisation charge

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

	2018 £'000	2017 £'000
Net operating costs (Note 3)	1,759	1,142

11 Inventories

	2018 £'000	2017 £'000
Raw materials and consumables	15,925	15,690
Finished goods and goods for resale	68,436	62,169
	84,361	77,859

Inventories stated at a net realisable value less than cost at 31 December 2018 amounted to £3,420,000 (2017: £4,148,000). The write down of inventories made during the year amounted to £1,024,000 (2017: £1,477,000). There were £nil reversals of inventory write downs made in previous years in 2018 (2017: £73,000).

12 Trade and other receivables

	2018 £'000	2017 £'000
Trade receivables	58,056	47,925
Other receivables	14,940	15,839
Prepayments and accrued income	7,434	4,457
	80,430	68,221

Included within other receivables is a reimbursement asset of £9,418,000 (2017: £12,000,000) which is held in escrow in relation to the acquisitions of CPM Group Limited and Edenhall Holdings Limited (Note 22).

Ageing of trade receivables

	2018 £'000	2017 £'000
Neither impaired nor past due	25,822	21,363
Not impaired but overdue by less than 30 days	20,952	19,117
Not impaired but overdue by between 30 and 60 days	4,148	3,653
Not impaired but overdue by more than 60 days	7,134	3,792
	58,056	47,925

There were no receivables due after more than 1 year (2017: £nil). All amounts disclosed above are considered recoverable and are disclosed net of a provision for expected credit losses of £716,000 (2017: £609,000).

Notes to the Consolidated Financial Statements *continued***13 Cash and cash equivalents**

	2018 £'000	2017 £'000
Bank balances	45,694	19,833
Cash in hand	15	12
Cash and cash equivalents in the Consolidated Cash Flow Statement	45,709	19,845

14 Trade and other payables

	2018 £'000	2017 £'000
Current liabilities		
Trade payables	59,354	52,180
Taxation and social security	11,894	10,449
Other payables	23,868	15,056
Accruals	26,837	22,488
	121,953	100,173

All trade payables are due in 6 months or less.

15 Loans

	2018 £'000	2017 £'000
Current liabilities		
Bank overdrafts	2,673	–
Finance lease liabilities	301	35
	2,974	35
Non-current liabilities		
Bank loans	79,528	43,883
Finance lease liabilities	640	224
	80,168	44,107

Bank loans

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

Finance lease liabilities

	2018			2017		
	Minimum lease payments £'000	Interest £'000	Principal £'000	Minimum lease payments £'000	Interest £'000	Principal £'000
Less than 1 year	335	34	301	40	5	35
1 to 2 years	299	30	269	40	4	36
2 to 5 years	363	31	332	120	10	110
In more than 5 years	40	1	39	80	2	78
	1,037	96	941	280	21	259



16 Financial instruments

The Group holds and uses financial instruments to finance its operations and to manage its interest rate, liquidity and currency risks. The Group primarily finances its operations using share capital, retained profits and borrowings. The Group's bank loans are non-equity funding instruments, further details of which are set out on pages 112 and 113.

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 2017.

Capital management

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

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

From time to time the Group purchases its own shares on the market; the timing of these purchases depends on market prices. Primarily the shares are intended to be used for issuing shares under the Group's incentive schemes. Buy and sell decisions are made on a specific transaction basis by the Board.

There has been no change in the objectives, policies or processes with regard to capital management during the years ended 31 December 2018 and 31 December 2017.

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 23 to 27. 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 112 and 113.

(b) Interest rate risk

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

The Group classifies its interest rate swaps as cash flow hedges and states them at fair value. The fair value of interest rate swaps is £nil (2017: £14,000 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 £70,000 (2017: £23,000) has been recognised in other comprehensive income for the year with £14,000 (2017: £43,000) 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 16(e)) and forward contracts this gives a total of £528,000 credit (2017: £146,000 credit) recognised in other comprehensive income for the year with £668,000 debit (2017: £385,000 debit) being reclassified from equity to the Income Statement.

Notes to the Consolidated Financial Statements *continued***16 Financial instruments** *continued***Financial risks** *continued***(b) Interest rate risk** *continued*

Sensitivity analysis

A change of 100 basis points in interest rates at the balance sheet date would have decreased equity and profit by the amounts shown below. The sensitivity analysis has been undertaken before the effect of tax. The sensitivity analysis of the Group's exposure to interest rate risk has been determined based on the change taking place at the beginning of the financial year and held constant throughout the reporting period.

This analysis assumes that all other variables, in particular foreign currency rates, remain constant and considers the effect of financial instruments with variable interest rates, financial instruments at fair value through profit or loss or available for sale with fixed interest rates and the fixed rate element of interest rate swaps. The analysis was performed on the same basis for 2017.

	2018 £'000	2017 £'000
Increase of 100 basis points	(650)	(211)
Decrease of 100 basis points	650	211

(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 12 on page 107.

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

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

(d) Foreign currency risk

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

The Group's policy is to cover all significant foreign currency commitments in respect of trade receivables and trade payables by using forward foreign currency contracts. All the forward exchange contracts have maturities of less than 1 year after the balance sheet date. Where necessary, the forward exchange contracts are rolled over at maturity.

The Group classifies its forward exchange contracts as cash flow hedges and states them at fair value. The fair value of forward exchange contracts is £30,000 liability (2017: £42,000 asset) and is adjusted against the hedging reserve on an ongoing basis. At 31 December 2018 all outstanding forward exchange contracts had a maturity date within 6 months.

The foreign currency profile of monetary items was:

	2018					2017				
	Sterling £'000	Euro £'000	US Dollar £'000	AED £'000	Total £'000	Sterling £'000	Euro £'000	US Dollar £'000	AED £'000	Total £'000
Cash and cash equivalents	43,644	913	1,029	123	45,709	17,830	912	1,006	97	19,845
Bank overdrafts	(2,673)	–	–	–	(2,673)	–	–	–	–	–
Trade receivables	54,536	3,319	163	38	58,056	46,530	1,035	360	–	47,925
Secured bank loans	(63,250)	(16,278)	–	–	(79,528)	(28,251)	(15,632)	–	–	(43,883)
Trade payables	(50,114)	(8,555)	(685)	–	(59,354)	(42,943)	(8,328)	(909)	–	(52,180)
Derivative financial instruments	306	(24)	(6)	–	276	405	42	–	–	447
Balance sheet exposure	(17,551)	(20,625)	501	161	(37,514)	(6,429)	(21,971)	457	97	(27,846)

A 10 per cent strengthening and weakening of the following currencies against the Pound Sterling at 31 December 2018 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.



16 Financial instruments *continued*

Financial risks *continued*

(d) Foreign currency risk *continued*

This analysis assumes that all other variables, in particular other exchange rates and interest rates, remain constant. The analysis was performed on the same basis for 2017:

	2018 £'000	2017 £'000
10 per cent strengthening of £ against €	1,833	1,953
10 per cent weakening of £ against €	(1,500)	(1,598)
10 per cent strengthening of £ against \$	(45)	(41)
10 per cent weakening of £ against \$	36	33
10 per cent strengthening of £ against Dhs	(14)	(9)
10 per cent weakening of £ against Dhs	12	7

(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 2019. The Group classifies its fuel hedges as cash flow hedges and states them at fair value. The fair value of the fuel hedges is a £306,000 asset (2017: £391,000 asset) and is adjusted against the hedging reserve on an ongoing basis. The period that the fuel hedges cover is matched against future expected purchases in order to fix the impact on the Income Statement. During the year £598,000 (2017: £123,000) has been recognised in other comprehensive income, with £682,000 (2017: £428,000) 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 2 to 37.

Effective interest rates and maturity of liabilities

At 31 December 2018 there were £941,000 (2017: £259,000) of Group borrowings on a fixed rate. The interest rate profile of the financial liabilities was:

	Fixed or variable rate	Effective interest rate %	Total £'000	6 months or less £'000	6 – 12 months £'000	1 – 2 years £'000	2 – 5 years £'000	More than 5 years £'000
31 December 2018								
Cash and cash equivalents (Note 13)	Variable	1.81	(45,709)	(45,709)	–	–	–	–
Bank overdrafts (Note 15)	Variable	3.0	2,673	2,673	–	–	–	–
Bank loans (Note 15)	Variable	1.81	79,528	–	19,820	20,000	39,708	–
Finance lease liabilities (Note 15)	Fixed	10.9	941	135	166	269	332	39
			37,433	(42,901)	19,986	20,269	40,040	39
31 December 2017								
Cash and cash equivalents (Note 13)	Variable	1.97	(19,845)	(19,845)	–	–	–	–
Bank loans (Note 15)	Variable	1.97	43,883	–	14,500	24,239	5,144	–
Finance lease liabilities (Note 15)	Fixed	10.0	259	–	35	36	110	78
			24,297	(19,845)	14,535	24,275	5,254	78

Notes to the Consolidated Financial Statements *continued***16 Financial instruments** *continued***Financial risks** *continued***(f) Other risks** *continued*Effective interest rates and maturity of liabilities *continued*

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

	Fixed or variable rate	Carrying value £'000	Total £'000	6 months or less £'000	6 – 12 months £'000	1 – 2 years £'000	2 – 5 years £'000	More than 5 years £'000
31 December 2018								
Bank overdrafts	Variable	2,673	2,673	2,673	–	–	–	–
Bank loans	Variable	79,528	82,347	595	20,318	20,811	40,623	–
Trade payables	Variable	59,354	59,354	59,354	–	–	–	–
Finance lease liabilities	Fixed	941	1,037	152	183	299	363	40
Derivative financial assets	Fixed	(276)	(276)	(249)	(27)	–	–	–
		142,220	145,135	62,525	20,474	21,110	40,986	40

	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 2017								
Bank loans	Variable	43,883	44,519	244	14,665	24,427	5,183	–
Trade payables	Variable	52,180	52,180	52,180	–	–	–	–
Finance lease liabilities	Fixed	259	280	3	37	40	120	80
Derivative financial assets	Fixed	(447)	(391)	(236)	(155)	–	–	–
		95,875	96,588	52,191	14,547	24,467	5,303	80

Borrowing facilities

The total bank borrowing facilities at 31 December 2018 amounted to £140.0 million (2017: £115.0 million), of which £60.5 million (2017: £71.1 million) remained unutilised. There are additional seasonal bank working capital facilities of £10.0 million available between 1 February and 31 August each year. The undrawn facilities available at 31 December 2018, in respect of which all conditions precedent had been met, were as follows:

	2018 £'000	2017 £'000
Committed:		
Expiring in more than 5 years	25,000	–
Expiring in more than 2 years but not more than 5 years	20,292	50,617
Expiring in 1 year or less	180	5,500
Uncommitted:		
Expiring in 1 year or less	15,000	15,000
	60,472	71,117

On 9 August 2018, the Group renewed its short-term working capital facilities of £25.0 million. To support the acquisition of Edenhall Holdings Limited, the Group has taken out an additional committed facility of £25.0 million with a 2024 maturity date. The committed facilities are all revolving credit facilities with interest charged at variable rates based on LIBOR. The Group's bank facilities continue to be aligned with the current strategy to ensure that headroom against available facilities remains at appropriate levels.



16 Financial instruments *continued*

Borrowing facilities *continued*

The maturity profile of borrowing facilities is structured to provide balanced, committed and phased medium-term debt. The current facilities are set out as follows:

	Facility £'000	Cumulative facility £'000
Committed facilities		
Q1: 2024	25,000	25,000
Q3: 2023	20,000	45,000
Q3: 2022	20,000	65,000
Q3: 2021	20,000	85,000
Q3: 2020	20,000	105,000
Q3: 2019	20,000	125,000
On-demand facilities		
Available all year	15,000	140,000
Seasonal (February to August inclusive)	10,000	150,000

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 2018 is shown below:

	2018		2017	
	Book amount £'000	Fair value £'000	Book amount £'000	Fair value £'000
Trade and other receivables	71,710	71,710	62,787	62,787
Cash and cash equivalents	45,709	45,709	19,845	19,845
Bank overdrafts	(2,673)	(2,673)	–	–
Bank loans	(79,528)	(77,931)	(43,883)	(42,836)
Finance lease liabilities	(941)	(1,037)	(259)	(280)
Trade and other payables	(107,908)	(107,908)	(95,777)	(95,777)
Interest rate swaps, forward contracts and fuel hedges	276	276	447	447
Contingent consideration	(2,420)	(2,420)	–	–
Financial instrument assets and liabilities – net	(75,775)		(56,840)	
Non-financial instrument assets and liabilities – net	342,490		294,467	
	266,715		237,627	

Estimation of fair values

The following summarises the major methods and assumptions used in estimating the fair values of financial instruments reflected in the table. Other than contingent consideration, which uses a level 3 basis, all use level 2 valuation techniques.

(a) Derivatives

Derivative contracts are either marked to market using listed market prices or by discounting the contractual forward price at the relevant rate and deducting the current spot rate. For interest rate swaps, broker quotes are used.

(b) Interest-bearing loans and borrowings

Fair value is calculated based on the expected future principal and interest cash flows discounted at the market rate of interest at the balance sheet date.

(c) Finance lease liabilities

The fair value is estimated as the present value of future cash flows, discounted at market interest rates for homogeneous lease agreements. The estimated fair values reflect changes in interest rates.

(d) Trade and other receivables / payables

For receivables / payables with a remaining life of less than 1 year, the notional amount is deemed to reflect the fair value. All other receivables / payables are discounted to determine the fair value.

(e) Contingent consideration

The basis of calculating contingent consideration is set out in Note 22 on page 121.



Notes to the Consolidated Financial Statements *continued***16 Financial instruments** *continued***Borrowing facilities** *continued***Estimation of fair values** *continued*

(f) Fair value hierarchy

The table below analyses financial instruments, measured at fair value, into a fair value hierarchy based on the valuation techniques used to determine fair value.

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- 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 2018				
Derivative financial assets	–	276	–	276
31 December 2017				
Derivative financial assets	–	447	–	447

17 Employee benefits

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

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

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

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

The defined benefit section of the Scheme is subject to regular actuarial valuations, which are usually carried out every 3 years. The next actuarial valuation is expected to be carried out with an effective date of 5 April 2018. These actuarial valuations are carried out in accordance with the requirements of the Pensions Act 2004 and so include deliberate margins for prudence. This contrasts with these accounting disclosures which are determined using best estimate assumptions.

A formal actuarial valuation was carried out as at 5 April 2015. The results of that valuation have been projected to 31 December 2018 by a qualified independent actuary. The figures in the following disclosure were measured using the projected unit method.

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

	2018 £'000	2017 £'000	2016 £'000
Present value of Scheme liabilities	(330,222)	(350,554)	(355,793)
Fair value of Scheme assets	343,738	354,681	360,069
Net amount recognised at the year end (before any adjustments for deferred tax)	13,516	4,127	4,276



17 Employee benefits *continued*

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

Following the High Court ruling in the Lloyds Banking case, an adjustment of £1.5 million has been made to increase Scheme liabilities for GMP equalisation. This has been recorded in the current year Income Statement as a past service cost.

	2018 £'000	2017 £'000
Net interest expense recognised in the Consolidated Income Statement	596	477
Remeasurements of the net liability:		
Return on scheme assets (excluding amount included in interest expense)	7,872	(2,819)
(Gain) / loss arising from changes in financial assumptions	(16,326)	10,158
Gain arising from changes in demographic assumptions	(1,531)	(7,667)
Credit recorded in other comprehensive income	(9,985)	(328)
Total defined benefit (credit) / charge	(9,389)	149

The principal actuarial assumptions used were:

	2018 £'000	2017 £'000
Liability discount rate	2.75%	2.50%
Inflation assumption – RPI	3.15%	3.15%
Inflation assumption – CPI	2.15%	2.15%
Rate of increase in salaries	n/a	n/a
Revaluation of deferred pensions	2.15%	2.15%
Increases for pensions in payment:		
CPI pension increases (maximum 5% p.a.)	2.15%	2.15%
CPI pension increases (maximum 5% p.a., minimum 3% p.a.)	3.20%	3.20%
CPI pension increases (maximum 3% p.a.)	1.95%	1.95%
Proportion of employees opting for early retirement	0%	0%
Proportion of employees commuting pension for cash	50%	50.0%
Mortality assumption – before retirement	Same as post retirement	Same as post retirement
Mortality assumption – after retirement (males)	S2PXA tables	S2PMA tables
Loading	105%	105%
Projection basis	Year of birth	Year of birth
	CMI_2017 1.0%	CMI_2016 1.0%
Mortality assumption – after retirement (females)	S2PXA tables	S2PFA tables
Loading	105%	105%
Projection basis	Year of birth	Year of birth
	CMI_2017 1.0%	CMI_2016 1.0%
Future expected lifetime of current pensioner at age 65:		
Male aged 65 at year end	86.1	86.2
Female aged 65 at year end	88.0	88.0
Future expected lifetime of future pensioner at age 65:		
Male aged 45 at year end	87.1	87.2
Female aged 45 at year end	89.2	89.2

Notes to the Consolidated Financial Statements *continued***17 Employee benefits** *continued***Changes in the present value of assets over the year**

	2018 £'000	2017 £'000
Fair value of assets at the start of the year	354,681	360,069
Interest income	8,729	9,313
Return on assets (excluding amount included in net interest expense)	(7,872)	2,819
Benefits paid	(11,094)	(16,937)
Administration expenses	(706)	(583)
Fair value of assets at the end of the year	343,738	354,681
Actual return on assets over the year	857	12,132

Changes in the present value of liabilities over the year

	2018 £'000	2017 £'000
Liabilities at the start of the year	350,554	355,793
Past service cost	(7)	–
Interest cost	8,626	9,207
Remeasurement (gains) / losses:		
Actuarial (gains) / losses arising from changes in financial assumptions	(16,326)	10,158
Actuarial gains arising from changes in demographic assumptions	(1,531)	(7,667)
Benefits paid	(11,094)	(16,937)
Liabilities at the end of the year	330,222	350,554

The split of the Scheme's liabilities by category of membership is as follows:

	2018 £'000	2017 £'000
Deferred pensioners	182,701	193,464
Pensioners in payment	147,521	157,090
	330,222	350,554
Average duration of the Scheme's liabilities at the end of the year (in years)	18	18

The major categories of Scheme assets are as follows:

	2018 £'000	2017 £'000
Return-seeking assets		
UK equities	20,747	42,464
Overseas equities	9,767	20,015
Other equity type investments	37,976	41,784
Total return-seeking assets	68,490	104,263
Other		
Insured pensioners	760	819
Cash	2,335	575
Liability-driven investments	272,153	249,024
Total matching assets	275,248	250,418
Total market value of assets	343,738	354,681

The return-seeking assets and LDI assets have quoted prices in active markets. The valuation of the insured pensions has been taken as the value of the corresponding liabilities assessed using the assumptions set out above.

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

The Company expects to pay no contributions to the defined benefit section of the Scheme during the year ended 31 December 2019.



17 Employee benefits *continued*

Sensitivity of the liability value to changes in the principal assumptions

If the discount rate were 0.1 per cent higher / (lower), the defined benefit section Scheme liabilities would decrease by approximately £6.1 million (increase by £6.3 million) if all the other assumptions remained unchanged.

If the inflation assumption were 0.1 per cent higher / (lower), the Scheme liabilities would increase by £3.1 million (decrease by £2.5 million). In this calculation all assumptions related to the inflation assumption have been appropriately adjusted, that is salary, the deferred pension and pension in payment increases. The other assumptions remain unchanged.

If life expectancies were to increase / (decrease) by 1 year, the Scheme liabilities would increase by £14.7 million (decrease by £14.1 million) if all the other assumptions remained unchanged.

Management Incentive Plan ("MIP")

Share-based payment awards have been made during the year in accordance with the rules of the MIP. Full details of the performance criteria and the basis of operation of the MIP are set out in the Annual Remuneration Report on pages 69 to 72.

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	200,083	648	10 March 2015	3 years
Equity settled awards granted to other employees	252,338	818	10 March 2015	3 years
Equity settled awards granted to Directors of Marshalls plc	235,541	677	11 March 2016	2 years
Equity settled awards granted to other employees	306,208	881	11 March 2016	2 years
Equity settled awards granted to Directors of Marshalls plc	224,669	993	15 March 2017	4 years
Equity settled awards granted to other employees	300,005	1,326	15 March 2017	4 years
Equity settled awards granted to Directors of Marshalls plc	283,261	1,266	16 March 2018	3 years
Equity settled awards granted to other employees	364,746	1,631	16 March 2018	3 years
	2,166,851	8,240		

Analysis of closing balance (deferred into shares):

	2018		2017	
	£'000	Shares	£'000	Shares
Equity settled awards granted to Directors of Marshalls plc	3,584	943,554	4,526	1,295,249
Equity settled awards granted to other employees	4,656	1,223,297	5,838	1,635,817
	8,240	2,166,851	10,364	2,931,066

	2018		2017	
	Value £'000	Number of options	Value £'000	Number of options
Outstanding at 1 January	10,364	2,931,066	7,134	2,438,884
Granted	2,896	648,016	2,921	663,695
Change in value of notional shares	203	48,293	1,145	19,286
Element released	(5,223)	(1,460,524)	(836)	(190,799)
Outstanding at 31 December	8,240	2,166,851	10,364	2,931,066

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

	2018 £'000	2017 £'000
Awards granted and total expense recognised as employee costs	3,349	5,218

Further details in relation to the Directors are set out in the Annual Remuneration Report on pages 69 to 72. Included in the total expense of £3,349,000 (2017: £5,218,000) is an amount of £2,422,000 (2017: £1,804,000) which is expected to be settled as interim cash payments under the terms of the Scheme and which has been included within wages and salaries in Note 3 and accruals in Note 14.

Notes to the Consolidated Financial Statements *continued***17 Employee benefits** *continued***Sensitivity of the liability value to changes in the principal assumptions** *continued***Employee Bonus Share Plan**

A Bonus Share Plan was approved by shareholders in May 2015 under which a number of senior management employees were granted performance related bonuses with an element of this bonus being in the form of shares. The bonus performance criteria are the same as those applicable to the MIP awards and are in relation to the years ended 31 December 2016, 31 December 2017 and 31 December 2018. The bonus shares take the form of nil-cost options to acquire shares at the end of a 3-year vesting period from the date of grant, and vesting is conditional on continued employment at the end of the vesting period. Awards are made to participants following publication of the Group's year end results. In addition, a special Bonus Share Award was granted to qualifying CPM employees following its acquisition on 19 October 2017. This took the form of a nil-cost option to acquire Ordinary Shares in Marshalls plc at the end of a 3-year period. Awards outstanding at 31 December 2018 were over 352,117 shares (31 December 2017: 328,267). The total expenses recognised for the year arising from share-based payments were £563,000 (2017: £169,000).

All-employee Sharesave ("SAYE") scheme

On 5 October 2015 options were granted over up to 1,000,000 shares to employees who had subscribed to the SAYE scheme. The option price was 291 pence, a discount of 20 per cent to the market price on the date of grant. The options were exercisable by relevant employees after a period of 3 years and accordingly reached maturity and became exercisable during the year, and as at 31 December 2018 614,678 Ordinary Shares had been issued. As at 14 March 2019 a further 58,724 Ordinary Shares had been issued to SAYE participants having exercised options. SAYE options that are not exercised will lapse on 1 June 2019. The total expense recognised for the year arising from share-based payments was £275,000 (2017: £300,000).

Employee profit sharing scheme

At 31 December 2018 the scheme held 42,329 (2017: 42,328) Ordinary Shares in the Company.

18 Provisions

	Legal and regulatory provisions £'000
At 1 January 2017	–
On acquisition of subsidiary undertaking	11,840
At 1 January 2018 as previously reported	11,840
Restatement (Note 22)	(3,640)
At 1 January 2018 as restated	8,200
Utilised in the year	(1,912)
On acquisition of subsidiary undertaking	1,000
At 31 December 2018	7,288

Provisions were made for the estimated cost of settlement of certain legal and regulatory matters relating to the CPM business acquired on 19 October 2017, reflecting the Directors' estimate of the likely outflow from settlement of these matters. In addition, provisions of £1,000,000 were made for the estimated cost of settlement of certain legal and regulatory matters relating to the Edenhall business acquired on 11 December 2018. These provisions are expected to be settled within the next 2 years. As explained in Note 12, the Group has a right of access to the cash paid into an escrow account at the date of acquisition to be used to settle these matters to the extent that a liability crystallises.

19 Deferred taxation**Recognised deferred taxation assets and liabilities**

	Assets		Liabilities	
	2018 £'000	2017 £'000	2018 £'000	2017 £'000
Property, plant and equipment	–	–	(10,924)	(10,545)
Intangible assets	–	–	(1,985)	(1,351)
Inventories	–	–	(337)	(368)
Employee benefits	–	–	(2,299)	(702)
Equity settled share-based payments	1,406	2,775	–	–
Other items	–	–	(2,008)	(2,020)
Tax assets / (liabilities)	1,406	2,775	(17,553)	(14,986)

The March 2016 Budget announced that the UK corporation tax rate will reduce to 17 per cent by 2020. The reduction in the rate to 17 per cent (effective April 2020) was substantively enacted at the balance sheet date. This will reduce the Group's future current tax charge accordingly. The deferred taxation liability at 31 December 2018 has been calculated based on the rate at which the deferred tax is expected to unwind in the future using rates enacted at the balance sheet date.

The deferred taxation liability of £2,299,000 (2017: £702,000) in relation to employee benefits is in respect of the net surplus for the defined benefit obligations of £13,516,000 (2017: £4,127,000) (Note 17) calculated at 17 per cent (2017: 17 per cent).

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



19 Deferred taxation *continued*

Movement in temporary differences

Year ended 31 December 2018

	1 January 2018 £'000	Recognised in income £'000	Recognised in other comprehensive income £'000	Recognised in statement of changes in equity £'000	On acquisition of subsidiary undertaking £'000	31 December 2018 £'000
Property, plant and equipment	(10,545)	79	–	–	(458)	(10,924)
Intangible assets	(1,351)	28	–	–	(662)	(1,985)
Inventories	(368)	31	–	–	–	(337)
Employee benefits	(702)	101	(1,698)	–	–	(2,299)
Equity settled share-based payments	2,775	(1,198)	–	(171)	–	1,406
Other items	(2,020)	(15)	27	–	–	(2,008)
	(12,211)	(974)	(1,671)	(171)	(1,120)	(16,147)

Year ended 31 December 2017

	1 January 2017 £'000	Recognised in income £'000	Recognised in other comprehensive income £'000	Recognised in statement of changes in equity £'000	On acquisition of subsidiary undertaking £'000	31 December 2017 £'000
Property, plant and equipment	(10,838)	718	–	–	(425)	(10,545)
Intangible assets	(265)	25	–	–	(1,111)	(1,351)
Inventories	(377)	9	–	–	–	(368)
Employee benefits	(727)	81	(56)	–	–	(702)
Equity settled share-based payments	1,821	69	–	885	–	2,775
Other items	(1,448)	(5)	35	–	(602)	(2,020)
	(11,834)	897	(21)	885	(2,138)	(12,211)

Deferred taxation liabilities represent sums that might become payable as tax in future years as a result of transactions that have occurred in the current year. The explanation as to why such liabilities may arise is included in the notes to the tax reconciliation (Note 6).

The deferred tax balances on short-term timing differences are expected to reverse within 1 to 3 years.

Based on the current investment programme of the Group and assuming that current rates of capital allowances on fixed asset expenditure continue into the future, there is little prospect of any significant part of the deferred taxation liability of the Company becoming payable over the next 3 years. It is not realistic to make any projection after a 3-year period.

The deferred tax liabilities disclosed in the year ended 31 December 2018 include the deferred tax relating to the Group's pension scheme assets. Deferred tax assets on capital losses and overseas trading losses have not been recognised due to uncertainty around the future use of the losses.

20 Capital and reserves

Called-up share capital

	2018 Number	2018 nominal value £'000	2017 Number	2017 nominal value £'000
Ordinary Shares				
At 1 January	199,378,755	49,845	199,378,755	49,845
Issued in year	614,678	153	–	–
At 31 December	199,993,433	49,998	199,378,755	49,845

On 5 October 2015 options were granted up to 1,000,000 shares to employees who had subscribed to the SAYE Scheme (Note 17). The options were exercisable by relevant employees after a period of 3 years and consequently during the year 614,678 Ordinary Shares were issued to those employees whose options had reached maturity.

Consolidation reserve

On 8 July 2004 Marshalls plc was introduced as the new holding company of the Group by way of a court-approved Scheme of Arrangement under Section 425 of the Companies Act 1985. The restructuring was accounted for as a capital reorganisation and accounting principles were applied as if the Company had always been the holding company of the Group. The difference between the aggregate nominal value of the new shares issued by the Company and the called-up share capital, capital redemption reserve and share premium account of Marshalls Group plc (the previous holding company) was transferred to a consolidation reserve.

Hedging reserve

This represents the gains and losses arising on derivatives used for cash flow hedging, principally from the Group's interest rate swaps, energy price contracts and forward exchange contracts.



Notes to the Consolidated Financial Statements *continued***20 Capital and reserves** *continued***Dividends**

After the balance sheet date the following dividends were proposed by the Directors. The dividends have not been provided for and there were no income tax consequences.

	2018 £'000	2017 £'000
8.00 pence final dividend (2017: 6.80 pence) per Ordinary Share	15,860	13,436
4.00 pence supplementary dividend (2017: 4.00 pence) per Ordinary Share	7,930	7,904
	23,790	21,340

21 Non-controlling interests

	2018 £'000	2017 £'000
At 1 January	1,459	1,465
Share of loss for the year	(330)	(377)
Foreign currency transaction differences	(35)	371
At 31 December	1,094	1,459

22 Acquisition of subsidiary

On 11 December 2018, Marshalls Mono Limited acquired 100 per cent of the issued share capital of Edenhall Holdings Limited, a concrete brick manufacturer. Edenhall Holdings Limited operates within the UK and is registered in England and Wales. The fair values acquired are disclosed as provisional given that the acquisition was made on 11 December 2018.

The amounts recognised in respect of the provisional identifiable assets acquired and liabilities assumed are as set out in the table below.

	2018 Edenhall provisional fair values acquired £'000	2017 CPM fair values acquired £'000
Land and buildings	3,915	8,437
Plant, machinery and vehicles	7,116	7,639
Identifiable intangible assets	3,897	7,233
Inventories	2,105	4,580
Trade and other receivables	5,726	12,334
Cash and cash equivalents	33	(2,955)
Trade and other payables	(12,192)	(19,552)
Provisions	(1,000)	(8,200)
Borrowings	(3,959)	(3,407)
Finance leases	(783)	–
Corporation tax	(692)	(1,825)
Deferred tax	(1,120)	(2,138)
Total identifiable net assets	3,046	2,146
Goodwill	12,033	25,545

Total consideration

Satisfied by:

Cash consideration	10,759	27,691
Deferred consideration	1,900	–
Contingent consideration	2,420	–
Total cost of investment	15,079	27,691
Monies paid into escrow	1,000	10,581
	16,079	38,272

Analysis of amounts paid in connection with the acquisition

Total cash payments	11,759	38,272
Net (cash) / borrowings acquired	(33)	2,955
Total cash outflow in connection with the acquisition	11,726	41,227



22 Acquisition of subsidiary *continued*

Acquisition of Edenhall Holdings Limited

Initial cash consideration paid to the vendors was £10,759,000 and, in addition, a further £1,000,000 was paid into an escrow account in relation to certain ongoing legal and regulatory matters identified during the course of due diligence carried out prior to concluding the acquisition. The Group has a right to be reimbursed from amounts held in escrow to the extent that any liability crystallises in respect of these ongoing legal and regulatory matters, up to the full value of the £1,000,000 held in escrow and consequently a reimbursement asset of £1,000,000 was recognised within other debtors. To the extent that any such liabilities are resolved at a lower value than the escrow balances, the excess balance remaining in escrow is payable to the vendors as additional consideration.

The Group has agreed to pay the vendors deferred consideration of £1,900,000 which is payable on 11 December 2021. This is not dependent on performance. Additional consideration is also payable dependent on the achievement of performance targets in the periods post acquisition. These performance periods are up to 3 years in duration and will be settled in cash on their payment date on achieving the relevant targets. The range of the additional consideration payment is estimated to be between £nil and £2.4 million. The Group has included £2.4 million as contingent consideration related to the additional consideration, which represents its fair value at the acquisition date. Contingent consideration has been calculated based on the Group's expectation of what it will pay in relation to the post-acquisition performance of the acquired entities.

Due to their contractual dates, the fair value of the receivables (shown above) is approximate to the gross contractual amounts receivable. The amount of gross contractual receivables not expected to be recovered is immaterial.

The goodwill arising from the acquisition represents the opportunity to grow by utilising the capabilities and technical expertise of the acquired workforce and by developing synergistic opportunities.

The goodwill arising from the acquisition is not expected to be deductible for income tax purposes.

Transaction costs incurred on acquisition were £375,000 and these were fully expensed in the period to 31 December 2018 (Note 3).

Edenhall Holdings Limited contributed revenue of £675,000 and profit of £4,000 to the Group's profit for the period between the date of acquisition and 31 December 2018.

If the acquisition of Edenhall Holdings Limited had been completed on the first day of the financial year, Group revenue for the period would have been £524,165,000 and Group profit before tax would have been £64,643,000.

Acquisition of CPM Group Limited

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

Initial cash consideration paid to the vendors was £26,272,000 and a further £12,000,000 was paid into an escrow account in relation to certain ongoing legal and regulatory matters identified during the course of due diligence carried out prior to concluding the acquisition. Provisions of £11,840,000 were recorded at the date of acquisition, for the estimated liabilities arising from concluding these ongoing matters (see Note 18). The Group has a right to be reimbursed from amounts held in escrow to the extent that any liability crystallises in respect of these ongoing legal and regulatory matters to enable the Group to settle these liabilities, up to the full value of the £12,000,000 held in escrow, and consequently a reimbursement asset of £12,000,000 was recognised within other debtors. To the extent that such liabilities are resolved at a lower value than the escrow balances, the excess balance remaining in escrow is payable to the vendors as additional consideration.

As required under the terms of the sale and purchase agreement, a net working capital review was undertaken in the period. Adjustments were agreed with the vendor which resulted in a reimbursement of £2,163,000 to Marshalls Mono Limited during the period to 31 December 2018. This amount covered both the required working capital adjustment and monies that were required to settle certain of the legal and regulatory matters which crystallised during the period.

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

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

Due to their contractual dates, the fair value of the receivables (shown above) is approximate to the gross contractual amounts receivable. The amount of gross contractual receivables not expected to be recovered is immaterial.

The goodwill arising from the acquisition represents the opportunity to grow by utilising the capabilities and technical expertise of the acquired workforce and by developing synergistic opportunities.

The goodwill arising from the acquisition is not expected to be deductible for income tax purposes.

Transaction costs incurred on acquisition were £837,000, and these were fully expensed in the period to 31 December 2017 (Note 3).

Notes to the Consolidated Financial Statements *continued***23 Analysis of net debt**

	1 January 2018 £'000	Cash flow £'000	On acquisition of subsidiary undertaking £'000	Other changes £'000	31 December 2018 £'000
Cash at bank and in hand	19,845	25,746	33	85	45,709
Debt due within 1 year	–	1,286	(3,959)	(19,820)	(22,493)
Debt due after 1 year	(43,883)	(35,450)	–	19,625	(59,708)
Finance leases	(259)	106	(783)	(5)	(941)
	(24,297)	(8,312)	(4,709)	(115)	(37,433)

Reconciliation of net cash flow to movement in net debt

	2018 £'000	2017 £'000
Net increase in cash equivalents	25,746	1,925
Cash inflow from increase in debt and lease financing	(34,063)	(24,819)
On acquisition of subsidiary undertaking	(4,709)	(6,362)
Effect of exchange rate fluctuations	(110)	(454)
Movement in net debt in the year	(13,136)	(29,710)
Net debt at 1 January	(24,297)	5,413
Net debt at 31 December	(37,433)	(24,297)

24 Changes in liabilities arising from financing activities

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's Consolidated Cash Flow Statement as cash flows from financing activities.

	1 January 2018 £'000	Financing cash flows (i) £'000	Non-cash changes		31 December 2018 £'000
			Acquisition of subsidiary (Note 22) £'000	Other changes (ii) £'000	
Bank overdrafts (Note 15)	–	(1,122)	(1,551)	–	(2,673)
Bank loans (Note 15)	(43,883)	(34,539)	(911)	(195)	(79,528)
Finance lease liabilities (Note 15)	(259)	106	(783)	(5)	(941)
Interest rate swaps fair value hedging or economically hedging financing liabilities (Note 16)	447	(668)	–	497	276
Total liabilities from financing activities	(43,695)	(36,223)	(3,245)	297	(82,866)

	1 January 2017 £'000	Financing cash flows (i) £'000	Non-cash changes		31 December 2017 £'000
			Acquisition of subsidiary (Note 22) £'000	Other changes (ii) £'000	
Bank loans (Note 15)	(14,975)	(25,413)	(2,847)	(648)	(43,883)
Finance lease liabilities (Note 15)	(293)	594	(560)	–	(259)
Interest rate swaps fair value hedging or economically hedging financing liabilities (Note 16)	657	(385)	–	175	447
Total liabilities from financing activities	(14,611)	(25,204)	(3,407)	(473)	(43,695)

(i) The cash flows from bank loans, loans from related parties and other borrowings make up the net amount of proceeds from borrowings and repayments of borrowings in the Cash Flow Statement.

(ii) Exchange adjustments and other movements.



25 Operating leases

The Group had non-cancellable total minimum lease payments to be paid in respect of operating leases on property, plant, machinery and vehicles as follows:

	Total £'000	6 months or less £'000	6 – 12 months £'000	1 – 2 years £'000	2 – 5 years £'000	More than 5 years £'000
31 December 2018						
Expiring:						
Within 1 year	1,652	1,256	396	–	–	–
Between 1 and 5 years	31,939	5,583	5,555	9,811	10,990	–
In more than 5 years	32,917	891	897	1,800	5,400	23,929
	66,508	7,730	6,848	11,611	16,390	23,929
31 December 2017						
Expiring:						
Within 1 year	1,758	1,173	585	–	–	–
Between 1 and 5 years	30,995	4,950	4,922	9,137	11,984	2
In more than 5 years	32,463	1,158	1,152	2,234	6,927	20,992
	65,216	7,281	6,659	11,371	18,911	20,994

The total minimum lease payments under non-cancellable operating leases (above) comprise property of £34,831,000 (2017: £30,236,000) and plant, machinery and vehicles of £31,677,000 (2017: £34,980,000).

Certain leased properties have been sublet by the Group. Sublease payments of £211,164 (2017: £306,020) are expected to be received during the following financial year. An amount of £207,779 (2017: £345,446) was recognised as income in the Consolidated Income Statement within net operating costs in respect of subleases.

26 Contingencies

Royal Bank of Scotland plc has issued, on behalf of Marshalls plc, the following irrevocable letters of credit relating to the Group's cap on self insurance for employer's liability and vehicle insurance:

Beneficiary	Amount	Period	Purpose
M S Amlin Limited	£675,000	23 Dec 2011 to 30 Oct 2019	Employer's liability
Aviva Insurance Limited	£350,000	19 Mar 2014 to 29 Oct 2019	Vehicle insurance
M S Amlin Limited	£400,000	30 Oct 2016 to 30 Oct 2019	Vehicle insurance

27 Related parties

Identity of related parties

The Group has a related party relationship with its Directors.

Transactions with key management personnel

Other than the Directors, there are no senior managers in the Group who are relevant for establishing that Marshalls plc has the appropriate expertise and experience for the management of its business.

Directors of the Company and their immediate relatives control 0.2202 per cent (2017: 0.1804 per cent) of the voting shares of the Company.

In addition to their salaries and pension allowances, the Group also provides non-cash benefits to Directors. Further details in relation to Directors are disclosed in the Annual Remuneration Report on pages 69 to 72.

28 Accounting estimates and judgements

Management discussed with the Audit Committee the development, selection and disclosure of the Group's critical accounting policies and estimates and the application of these policies and estimates. The accounting policies are set out in Note 1 on pages 90 to 99. As stated in the accounting policies, revenue is disclosed net of rebates. Whilst the Directors do not regard the determination of accruals for rebates as a key area of estimation uncertainty, the estimation of appropriate accruals for rebates requires commercial assessment. Note 11 contains details of the Group's inventory. Whilst not considered by the Directors to be a key source of estimation uncertainty, the carrying value of the Group's finished goods inventory has been reviewed using commercial judgement with regard to the assessment of the appropriate level of provisioning against inventory obsolescence and for net realisable value. The Directors consider the following to be the only key source of estimation uncertainty:

- Note 17 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 17 on page 117.

The critical accounting judgements applied in the preparation of the Financial Statements are:

- 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"; and
- Note 22 contains information relating to the acquisitions of both Edenhall Holdings Limited and CPM Group Limited. Judgement was applied in determining the fair value adjustments.



Parent Company Statement of Changes in Equity

for the year ended 31 December 2018

	Share capital £'000	Share premium account £'000	Own shares £'000	Capital redemption reserve £'000	Equity reserve £'000	Retained earnings £'000	Total equity £'000
Current year							
At 1 January 2018	49,845	22,695	(2,359)	75,394	8,020	85,347	238,942
Total comprehensive loss for the year							
Loss for the financial year	-	-	-	-	-	(7,317)	(7,317)
Total comprehensive loss for the year	-	-	-	-	-	(7,317)	(7,317)
Transactions with owners, recorded directly in equity							
Contributions by and distributions to owners							
Share-based payments	-	-	-	-	1,355	(1,505)	(150)
Deferred tax on share-based payments	-	-	-	-	(71)	-	(71)
Dividends to equity shareholders	-	-	-	-	-	(29,250)	(29,250)
Shares issued	153	1,631	-	-	-	-	1,784
Purchase of own shares	-	-	(1,210)	-	-	-	(1,210)
Disposal of own shares	-	-	2,681	-	-	(2,681)	-
Total contributions by and distributions to owners	153	1,631	1,471	-	1,284	(33,436)	(28,897)
Total transactions with owners of the Company	153	1,631	1,471	-	1,284	(40,753)	(36,214)
At 31 December 2018	49,998	24,326	(888)	75,394	9,304	44,594	202,728

There were no items of other comprehensive income / (expense) in the year other than the loss for the financial year recorded above.

	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 2017	49,845	22,695	(3,622)	75,394	5,377	118,079	267,768
Total comprehensive loss for the year							
Loss for the financial year	-	-	-	-	-	(7,755)	(7,755)
Total comprehensive loss for the year	-	-	-	-	-	(7,755)	(7,755)
Transactions with owners, recorded directly in equity							
Contributions by and distributions to owners							
Share-based payments	-	-	-	-	2,278	1,603	3,881
Deferred tax on share-based payments	-	-	-	-	365	-	365
Dividends to equity shareholders	-	-	-	-	-	(24,107)	(24,107)
Purchase of own shares	-	-	(1,210)	-	-	-	(1,210)
Disposal of own shares	-	-	2,473	-	-	(2,473)	-
Total contributions by and distributions to owners	-	-	1,263	-	2,643	(24,977)	(21,071)
Total transactions with owners of the Company	-	-	1,263	-	2,643	(32,732)	(28,826)
At 31 December 2017	49,845	22,695	(2,359)	75,394	8,020	85,347	238,942

There were no items of other comprehensive income / (expense) in the year other than the loss for the financial year recorded above.



Company Balance Sheet

at 31 December 2018

	Notes	2018 £'000	2017 £'000
Fixed assets			
Investments	32	347,140	345,785
Deferred taxation assets	33	735	1,492
		347,875	347,277
Current assets			
Debtors	34	1,830	1,602
Current liabilities			
Creditors	35	(146,977)	(109,937)
Net current liabilities		(145,147)	(108,335)
Net assets		202,728	238,942
Capital and reserves			
Called-up share capital	36	49,998	49,845
Share premium account		24,326	22,695
Own shares		(888)	(2,359)
Capital redemption reserve		75,394	75,394
Equity reserve		9,304	8,020
Profit and loss account		44,594	85,347
Equity shareholders' funds		202,728	238,942

The Company reported a loss for the financial year ended 31 December 2018 of £7,317,000 (2017: £7,755,000).

Approved at a Directors' meeting on 14 March 2019.

On behalf of the Board:

Martyn Coffey
Chief Executive

Jack Clarke
Finance Director

The Notes on pages 126 to 131 form part of these Company Financial Statements.



Notes to the Company Financial Statements

29 Accounting policies

The following paragraphs summarise the main accounting policies of the Company, which have been applied consistently in dealing with items which are considered material in relation to the Company's Financial Statements. The Company is exempt from the requirement to give its own disclosures as the entity forms part of the Consolidated Financial Statements of Marshalls plc, which has included disclosures under IFRS 7 "Financial Instruments: Disclosures".

(a) 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 2018 were authorised for issue by the Board of Directors on 14 March 2019. 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 the historical cost basis of accounting and Financial Reporting Standard 101 "Reduced Disclosure Framework" ("FRS 101").

No profit and loss account is presented by the Company as permitted by Section 408 of the Companies Act 2006.

(b) Basis of preparation

The Company has adopted FRS 101 from the UK Generally Accepted Accounting Practice for all periods presented.

The accounting policies which follow set out those policies which apply in preparing the Financial Statements for the year ended 31 December 2018.

In these Financial Statements, the Company has applied the exemptions available under FRS 101 in respect of the following disclosures:

- the requirements of paragraphs 45(b) and 46 – 52 of IFRS 2 "Share-based Payments";
- the requirements of IFRS 7 "Financial Instruments: Disclosures";
- the requirements of paragraphs 91 – 99 of IFRS 13 "Fair Value Measurement";
- the requirement in paragraph 38 of IAS 1 "Presentation of Financial Statements" to present comparative information in respect of paragraph 79(a)(iv) of IAS 1;
- the requirements of paragraphs 10(d), 10(f), 16, 39(c), 40A, 40B, 40C, 40D, 111 and 134 – 136 of IAS 1 "Presentation of Financial Statements";
- the requirements of IAS 7 "Statement of Cash Flows";
- the requirements of paragraphs 30 and 31 of IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors";
- the requirements of paragraph 17 of IAS 24 "Related Party Disclosures";
- the requirements in IAS 24 "Related Party Disclosures" to disclose related party transactions entered into between 2 or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member; and
- the requirements of paragraphs 134(d) – 134(f) and 135(c) – 135(e) of IAS 36 "Impairment of Assets".

The Company also intends to take advantage of these exemptions in the Financial Statements to be issued in the following year. Objections may be served in the Company by shareholders holding in aggregate 5 per cent or more of the total allocated shares in the Company. Where required, additional disclosures are given in the Consolidated Financial Statements.

(c) Investments

Fixed asset investments in subsidiaries and associates are shown at cost less provision for impairment. The Directors consider annually whether a provision against the value of investments on an individual basis is required.

(d) Share capital

(i) Share capital

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

(ii) Dividends

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

(e) Pension schemes

(i) Defined benefit scheme

The Company participates in a Group-wide pension scheme providing benefits based on final pensionable pay. The defined benefit section of the Scheme was closed to future service accrual in July 2006.

The assets of the Scheme are held separately from those of the Company. The defined benefit cost and contributions payable are borne by Marshalls Group Limited and, therefore, the defined benefit surplus or deficit is recorded in Marshalls Group Limited. Full details are provided in Note 17 on pages 114 to 118.

(ii) Defined contribution scheme

Obligations for contributions to defined contribution schemes are recognised as an expense as incurred.



29 Accounting policies *continued*

(f) Share-based payment transactions

The Company enters into equity settled share-based payment transactions with its employees. In particular, annual awards are made to employees under the Company's Management Incentive Plan ("MIP") and the Employee Bonus Share Plan ("BSP").

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

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

(g) Own shares held by the Employee Benefit Trust

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

(h) Trade and other payables

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

(i) Income tax

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

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

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

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

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

30 Operating costs

The audit fee for the Company was £25,000 (2017: £25,000). 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 69 to 72 of the Annual Remuneration Report.

The average monthly number of employees of Marshalls plc (including Executive Directors) in the year ended 31 December 2018 was 176 (2017: 178). The personnel costs for the majority of these employees are borne by Marshalls Group Limited. The personnel costs charged to Marshalls plc in the year were £4,093,000 (2017: £5,090,000) in relation to 17 employees (2017: 19), including the Directors.

31 Ordinary dividends: equity shares

	2018		2017	
	Pence per share	£'000	Pence per share	£'000
2017 final: paid 29 June 2018	6.80	13,439	5.80	11,460
2017 supplementary: paid 29 June 2018	4.00	7,905	3.00	5,927
2018 interim: paid 5 December 2018	4.00	7,906	3.40	6,718
	14.80	29,250	12.20	24,105



Notes to the Company Financial Statements *continued***31 Ordinary dividends: equity shares** *continued*

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.

	2018 £'000	2017 £'000
2018 final: 8.00 pence (2017: 6.80 pence) per Ordinary Share	15,860	13,436
2018 supplementary: 4.00 pence (2017: 4.00 pence) per Ordinary Share	7,930	7,904
	23,790	21,340

32 Investments

	£'000
At 1 January 2018	345,785
Additions	1,355
At 31 December 2018	347,140

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 £1,355,000 represents adjustments to the number of shares expected to vest in respect of share-based payment awards granted to employees of Marshalls Group Limited.

Pursuant to Sections 409 and 410(2) of the Companies Act 2006, the subsidiary undertakings of Marshalls plc at 31 December 2018 are set out below.

Subsidiaries	Principal activities	Class of share	% ownership
Acraman (418) Limited	Non-trading	Ordinary / preference	100
Alton Glasshouses Limited	Non-trading	Ordinary	100
Bollards Direct Limited	Non-trading	Ordinary	100
Capability Brown Garden Centres Limited	Non-trading	Ordinary	100
Capability Brown Landscaping Limited	Non-trading	Ordinary	100
Classical Flagstones Limited	Non-trading	Ordinary	100
CPM Group Limited	Landscape products manufacturer	Ordinary	100
Dalestone Concrete Products Limited	Non-trading	Ordinary	100
Edenhall Limited	Non-trading	Ordinary	100
Edenhall Building Products Limited	Non-trading	Ordinary	100
Edenhall Concrete Limited	Non-trading	Ordinary	100
Edenhall Concrete Products Limited	Non-trading	Ordinary	100
Edenhall Holdings Limited	Non-trading	Ordinary / preference	100
Edenhall Technologies Limited	Non-trading	Ordinary	100
Locharbriggs Sandstone Limited	Non-trading	Ordinary	100
Lloyds Quarries Limited	Non-trading	Ordinary	100
Marshalls Building Materials Limited	Non-trading	Ordinary	100
Marshalls Building Products Limited	Property management	Ordinary	100
Marshalls Concrete Products Limited	Non-trading	Ordinary	100
Marshalls Directors Limited	Non-trading	Ordinary	100
Marshalls Dormant No. 30 Limited	Non-trading	Ordinary	100
Marshalls Dormant No. 31 Limited	Non-trading	Ordinary	100
Marshalls EBT Limited ¹	Non-trading	Ordinary	100
Marshalls Estates Limited	Non-trading	Ordinary	100
Marshalls Group Limited ¹	Intermediate holding company	Ordinary	100
Marshalls Landscape Products Limited	Non-trading	Ordinary	100
Marshalls Landscape Products FZE	Landscape products supplier	Ordinary	100
Marshalls Landscape Products (North America) Inc.	Landscape products supplier	Ordinary	100



32 Investments *continued*

Subsidiaries	Principal activities	Class of share	% ownership
Marshalls Mono Limited	Landscape products manufacturer and supplier and quarry owner supplying a wide variety of paving, street furniture and natural stone products	Ordinary	100
Marshalls Natural Stone Limited	Non-trading	Ordinary	100
Marshalls NV	Landscape products manufacturer and supplier	Ordinary	66.7
Marshalls Profit Sharing Scheme Limited	Non-trading	Ordinary	100
Marshalls Properties Limited	Property management	Ordinary	100
Marshalls Register Limited	Non-trading	Ordinary	100
Marshalls Stone Products Limited	Non-trading	Ordinary	100
Marshalls Street Furniture Limited	Non-trading	Ordinary	100
Ollerton Limited	Non-trading	Ordinary	100
Panablok (UK) Limited	Non-trading	Ordinary	100
Paver Systems (Carluke) Limited	Non-trading	Ordinary	100
Paver Systems Limited	Non-trading	Ordinary	100
PD Edenhall Holdings Limited	Intermediate holding company	Ordinary	100
PD Edenhall Limited	Manufacture and sale of concrete products for the building industry	Ordinary	100
Premier Mortars Limited	Non-trading	Ordinary	100
Quarryfill Limited	Non-trading	Ordinary	100
Rhino Protec Limited	Non-trading	Ordinary	100
Robinson Associates Stone Consultants Limited	Non-trading	Ordinary	100
Robinsons Greenhouses Limited	Non-trading	Ordinary	100
Rockrite Limited	Non-trading	Ordinary	100
S Marshall & Sons Limited	Non-trading	Ordinary	100
Scenic Blue Limited	Non-trading	Ordinary	100
Scenic Blue Landscape Franchise Limited	Non-trading	Ordinary	100
Scenic Blue (UK) Limited	Non-trading	Ordinary	100
Stancliffe Stone Company Limited	Non-trading	Ordinary	100
Stoke Hall Quarry Limited ¹	Non-trading	Ordinary	100
Stone Shippers Limited	Non-trading	Ordinary	100
Stonemarket (Concrete) Limited	Non-trading	Ordinary	100
Stonemarket Limited	Non-trading	Ordinary	100
The Great British Bollard Company Limited	Non-trading	Ordinary	100
The Stancliffe Group Limited	Non-trading	Ordinary	100
The Yorkshire Brick Co. Limited	Non-trading	Ordinary	100
Town & Country Paving Limited	Non-trading	Ordinary	100
Urban Engineering Limited	Non-trading	Ordinary	100
Woodhouse Group Limited	Non-trading	Ordinary	100
Woodhouse UK Limited	Non-trading	Ordinary	100
Xiamen Marshalls Import Export Company Limited	Sourcing and distribution of natural stone products	Ordinary	100

¹ Held by Marshalls plc. All others held by subsidiary undertakings.

Marshalls NV is largely dependent on the continued support of Marshalls Mono Limited, which has indicated that it intends to continue providing this support for the foreseeable future.



Notes to the Company Financial Statements *continued***32 Investments** *continued*

All the other companies excluding the ones below operate within the United Kingdom and are registered in England and Wales at the following address: Landscape House, Premier Way, Lowfields Business Park, Elland, HX5 9HT. Marshalls NV is registered in Belgium. Xiamen Marshalls Import Export Company Limited is registered in China, Marshalls Landscape Products (North America) Inc. is registered in the USA and Marshalls Landscape Products FZE is registered in Dubai. Paver Systems Limited, Paver Systems (Carluke) Limited and Locharbriggs Sandstone Limited are registered in Scotland. The respective registered offices are:

Acraman (418) Limited, PD Edenhall Holdings Limited, PD Edenhall Limited, Edenhall Building Products Limited, Edenhall Concrete Limited, Edenhall Concrete Products Limited, Edenhall Holdings Limited, Edenhall Technologies Limited operate within the United Kingdom and are registered in England and Wales at the following address: Danygraig Road, Risca, Newport NP11 6DP.

Paver Systems Limited and Paver Systems (Carluke) Limited
Roadmeetings, Carluke, Lanarkshire, ML8 4QG

Locharbriggs Sandstone Limited
Locharbriggs, Dumfries, Dumfriesshire, DG1 1QS

Marshalls Landscape Products FZE
TPOFCB00WS58, Jebel Ali, Dubai, United Arab Emirates

Marshalls Landscape Products (North America) Inc.
1209 Orange Street, Wilmington, County of New Castle, Delaware 19801, USA

Marshalls NV
Nieuwstraat 4, 2840 Rumst, Belgium

Xiamen Marshalls Import Export Company Ltd.
12 A4, Xiangyu Building, No. 22 4th Xiangxing Road, Xiangyu Free Trade Zone, Xiamen, China

33 Deferred taxation**Recognised deferred taxation assets and liabilities**

	Assets		Liabilities	
	2018 £'000	2017 £'000	2018 £'000	2017 £'000
Equity settled share-based payments	735	1,492	–	–

Movement in temporary differences

	1 January 2018 £'000	Recognised in income £'000	Recognised in other comprehensive income £'000	31 December 2018 £'000
Equity settled share-based payments	1,492	(686)	(71)	735

34 Debtors

	2018 £'000	2017 £'000
Corporation tax	1,830	1,602

No debtors were due after more than 1 year.

35 Creditors

	2018 £'000	2017 £'000
Amounts owed to subsidiary undertakings	146,977	109,937



36 Capital and reserves

Called-up share capital

As at 31 December 2018, the issued and fully paid up ordinary share capital was as follows:

Ordinary	2018 number	2018 nominal value £'000	2017 number	2017 nominal value £'000
At 1 January	199,378,755	49,845	199,378,755	49,845
Issued in the period	614,678	153	–	–
At 31 December	199,993,433	49,998	199,378,755	49,845

On 5 October 2015 options were granted up to 1,000,000 shares to employees who had subscribed to the SAYE Scheme (Note 17). The options were exercisable by relevant employees after a period of 3 years and consequently during the year 614,678 Ordinary Shares were issued to those employees whose options had reached maturity.

Distributable reserves

The Company's distributable reserves amount to £44 million (2017: £85 million) at the end of the period. In addition, the Group has £297 million (2017: £230 million) of distributable reserves in subsidiary undertakings that are able to be passed up by way of dividend. The intention is that upstream dividends will be paid during 2019 in order to increase the distributable reserves in Marshalls plc.

Equity reserve

The equity reserve represents the number of shares expected to vest in respect of share-based payment awards granted to employees of the Company.

37 Capital and leasing commitments

The Company had no capital or leasing commitments at 31 December 2018 or 31 December 2017.

38 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.

39 Contingent liabilities

Royal Bank of Scotland plc has issued, on behalf of Marshalls plc, the following irrevocable letters of credit relating to the Group's cap on self insurance for employer's liability and vehicle insurance:

Beneficiary	Amount	Period	Purpose
M S Amlin Limited	£675,000	23 Dec 2011 to 30 Oct 2019	Employer's liability
Aviva Insurance Limited	£350,000	19 Mar 2014 to 29 Oct 2019	Vehicle insurance
M S Amlin Limited	£400,000	30 Oct 2016 to 30 Oct 2019	Vehicle insurance

40 Pension scheme

The Company is the sponsoring employer of the Marshalls plc pension scheme (the "Scheme") which is primarily a closed defined benefit scheme with a small defined contribution element (mainly AVC's). The assets of the Scheme are held in separately managed funds which are independent of the Group's finances.

Full details of the Scheme are provided in Note 17. The Company is unable to identify its share of the Scheme assets and liabilities on a consistent and reasonable basis.

The latest funding valuation of the defined benefit section of the Scheme was carried out as at 5 April 2015 and was updated for the purposes of the 31 December 2018 Financial Statements by a qualified independent actuary.

41 Accounting estimates and judgements

The preparation of the Financial Statements requires management to make judgements, estimates and assumptions. Although these judgements and estimates are based on management's best knowledge, actual results ultimately may differ from these estimates.

The key sources of estimation uncertainty that have a significant risk of causing material adjustments to the carrying value of assets and liabilities within the next financial year are disclosed below.

There are no critical accounting adjustments or key sources of estimation uncertainty.

42 Related parties

Related party relationships exist with other members of the Group. All operating costs are borne by Marshalls Group Limited and are recharged to Marshalls plc in respect of specifically attributable costs. All related party transactions were made on terms equivalent to those that prevail in arm's length transactions.

Financial History – Consolidated Group

	Year ended 31 December 2014 £'000	Year ended 31 December 2015 £'000	Year ended 31 December 2016 £'000	Year ended 31 December 2017 £'000	Year ended 31 December 2018 £'000
Consolidated Income Statement					
Revenue	358,516	386,204	396,922	430,194	490,988
Net operating costs	(333,211)	(348,752)	(349,283)	(376,755)	(426,154)
Operating profit	25,305	37,452	47,639	53,439	64,834
Financial income and expenses (net)	(2,884)	(2,174)	(1,593)	(1,388)	(1,899)
Profit before tax	22,421	35,278	46,046	52,051	62,935
Income tax expense	(4,198)	(7,387)	(8,539)	(9,925)	(11,307)
Profit for the financial year	18,223	27,891	37,507	42,126	51,628
Profit for the year attributable to:					
Equity shareholders of the Parent	19,857	28,149	37,350	42,503	51,958
Non-controlling interests	(1,634)	(258)	157	(377)	(330)
	18,223	27,891	37,507	42,126	51,628
EBITA ¹	26,536	38,774	48,648	54,581	66,593
EBITDA ¹	38,518	51,828	60,794	67,895	80,792
Basic earnings per share (pence)	10.13	14.32	18.95	21.52	26.29
Dividends per share (pence) – IFRS	5.50	6.25	9.65	12.20	14.80
Dividend cover (times) – IFRS	1.8	2.3	2.0	1.8	1.8
Dividends per share (pence) – traditional	6.00	7.00	8.70	10.20	12.00
Dividends per share (pence) – supplementary	–	2.00	3.00	4.00	4.00
Dividend cover (times) – traditional	1.7	1.6	1.6	1.5	1.6
Year-end share price (pence)	234.0	325.0	292.5	454.9	464.8
Tax rate (%)	18.7	20.9	18.5	19.1	19.0

¹ EBITA is defined as earnings before interest, tax and amortisation of intangibles. EBITDA is defined as earnings before interest, tax and amortisation of intangibles and depreciation.

	2014 £'000	2015 £'000	2016 £'000	2017* £'000	2018 £'000
Consolidated Balance Sheet					
Non-current assets	195,951	192,815	193,393	248,055	295,558
Current assets	132,593	137,017	139,685	166,372	210,776
Total assets	328,544	329,832	333,078	414,427	506,334
Current liabilities	(80,969)	(87,071)	(87,068)	(109,507)	(134,610)
Non-current liabilities	(65,681)	(50,043)	(28,889)	(67,293)	(105,009)
Net assets	181,894	192,718	217,121	237,627	266,715
Net borrowings	(30,480)	(11,462)	5,413	(24,297)	(37,433)
Gearing ratio	16.8%	6.0%	(2.5%)	10.2%	14.0%

* The comparatives have been restated as a result of a reassessment of the fair value of assets and liabilities acquired (Note 22).



Shareholder Information

Shareholder analysis at 31 December 2018

Size of shareholding	Number of shareholders	%	Number of Ordinary Shares	%
1 to 500	1,874	45.17	272,944	0.14
501 to 1,000	525	12.65	398,853	0.20
1,001 to 2,500	651	15.69	1,098,756	0.55
2,501 to 5,000	392	9.45	1,403,102	0.70
5,001 to 10,000	240	5.78	1,684,180	0.84
10,001 to 25,000	152	3.66	2,473,390	1.24
25,001 to 100,000	136	3.28	6,839,738	3.42
100,001 to 250,000	68	1.64	10,576,973	5.29
250,001 to 500,000	33	0.80	11,585,735	5.79
500,001 and above	78	1.88	163,659,762	81.83
	4,149	100.00	199,993,433	100.00

Financial calendar

Preliminary announcement of results for the year ended 31 December 2018	Announced	14 March 2019
Annual General Meeting		15 May 2019
Final dividend for the year ended 31 December 2018	Payable	28 June 2019
Half yearly results for the year ending 31 December 2019	Announcement	15 August 2019
Half yearly dividend for the year ending 31 December 2019	Payable	4 December 2019
Results for the year ending 31 December 2019	Announcement	Early March 2020

Advisers

Stockbrokers

Numis Securities Limited
Peel Hunt

Auditor

Deloitte LLP

Legal advisers

Herbert Smith Freehills LLP
Pinsent Masons LLP

Financial advisers

N M Rothschild & Sons Limited

Bankers

HSBC Bank plc
Lloyds Bank plc
Royal Bank of Scotland plc

Registrars

Computershare Investor Services PLC
The Pavilions
Bridgwater Road
Bristol BS99 6ZZ

Shareholders' enquiries should be addressed to the Registrars at the above address (tel: 0870 707 1134)

Registered office

Landscape House
Premier Way
Lowfields Business Park, Elland
Halifax HX5 9HT
West Yorkshire

Telephone: 01422 312000

Website: www.marshalls.co.uk

Registered in England and Wales: No. 5100353

Produced by

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Marshall's

Marshall's plc, Landscape House,
Premier Way, Lowfields Business Park,
Elland HX5 9HT



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