Marshalls

Creating better spaces

Marshalls plc
Annual Report and Accounts 2015

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. As a market leader in its sector, the Group operates manufacturing sites and quarries throughout the UK.

Strategic Report

Corporate Governance

Financial Statements

2 At a Glance **page 2**

4 Business Model **page 4**

Shareholder Information

Front cover – Trafalgar Square, National Portrait Gallery
Above – Canary Wharf

Highlights

Financial highlights

- Revenue up 8% to £386.2 million (2014: £358.5 million)
- Strong profit before tax growth of 57% to £35.3 million (2014: £22.4 million)
- Operating profit of £37.5 million (2014: £25.3 million) driving improved operating margins to 9.7% (2014: 7.1%)
- Return on capital employed improved 52% (650 basis points) to 19.0% (2014: 12.5%)
- EPS up 41% to 14.32 pence (2014: 10.13 pence)
- Final dividend increased by 19% to 4.75 pence (2014: 4.00 pence) per share
- Supplementary dividend of 2.00 pence per share

Current priorities

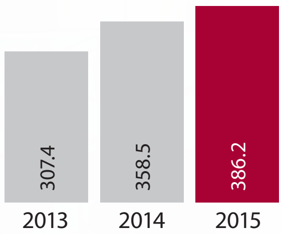
- To improve operational efficiency and promote innovation
- To further strengthen the Marshalls brand by developing systems-based solutions, service excellence and new product development
- To grow our business both organically and selectively through acquisitions
- To continue to develop and invest in our strategic growth initiatives, particularly in Water Management, Street Furniture, Rail and New Build Housing

16 Strategy **page 16**

18 Key Performance Indicators **page 18**

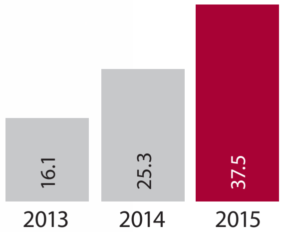
Revenue £'m

£386.2m
+8%



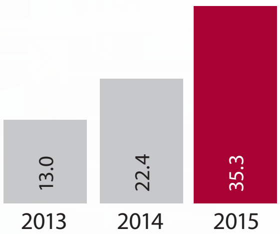
Operating profit £'m

£37.5m
+48%



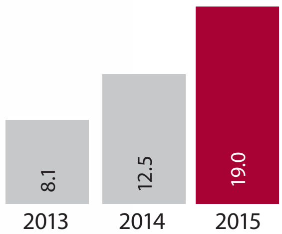
Profit before tax £'m

£35.3m
+57%



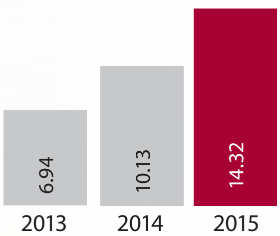
Return on capital employed %

19.0%
+52%



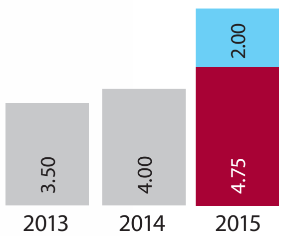
EPS p

14.32p
+41%



Final dividend recommended p

4.75p
+19%



(+ 2.00p supplementary)

Find out more online
www.marshalls.co.uk

Follow us on YouTube **MarshallsTV**

Find us on Facebook **MarshallsGroup**

Follow us on Twitter **@MarshallsGroup**

Follow us on LinkedIn **Marshalls**

At a Glance

Our business

The strategic focus is firmly on growth and to deliver benefits from operational gearing. We provide exceptional customer service and manufacturing expertise driven by a commitment to our core values.

Our markets

Public Sector and Commercial

INTERIORS, GARDENS, SEATING AND LANDSCAPES

Marshalls is the leading innovator of hard landscaping solutions for the commercial construction sector, placing a focus on developing new and innovative products.

In the Public Sector and Commercial end market Marshalls focuses on developing products which help architects, local authorities and contractors to create better spaces, whether it is street furniture, natural stone paving for the internal or external environment, concrete block paving, water management or protective street furniture products.

12 Markets – Public Sector and Commercial **page 12**

Domestic

INTERIORS, GARDENS AND DRIVEWAYS

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

For homeowners Marshalls offers the inspiration they need for their garden and driveway projects.

14 Markets – Domestic **page 14**

Customers

Marshalls is the market-leading supplier of hard landscaping products to both the Domestic and Public Sector and Commercial end markets.

Public Sector and Commercial

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

Domestic

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

Products

Marshalls offers complete hard landscaping solutions for the domestic and commercial hard landscaping markets, as well as internal flooring, street furniture and lighting.

Public Sector and Commercial

Products: Paving, block paving, kerb, water management, natural stone cladding, street furniture, lighting, protective street furniture, walling and mortars.

Domestic

Products: Paving, block paving, paths, edgings, walling and decorative aggregates.

Innovation

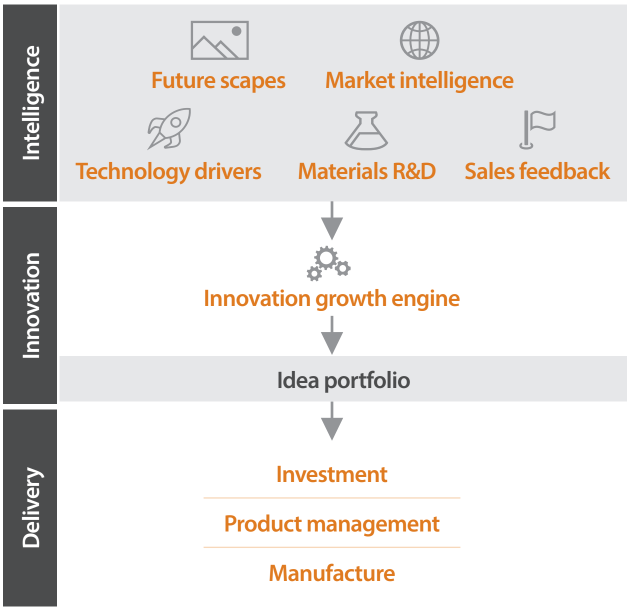
The structure of the Marshalls Innovation Cycle gives us a greater ability to feed the Group Marketing Evolution Plan – a necessity for a healthy, sustainable and industry leading new product design ("NPD") pipeline.

The new structure enables us to dynamically plug into a wider intelligence of product ideas, market drivers, industry technology and manufacturing system and process improvements for the next generation of Marshalls NPD.

Product and process concepts will be engaged by stakeholders and brought to life and managed within the Innovation Growth Engine. Based on real commercial intelligence the best concepts will be prioritised by business leaders and will move forward with more speed and confidence before being managed through the manufacturing or marketing process prior to manufacture.

6 Innovation in Action **pages 6 – 7**

Our innovation cycle



Our benchmarks

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

Business Model

How we do business

Marshalls' principal goal is to create value through creating better spaces. We place a strong emphasis on product innovation and service delivery initiatives.

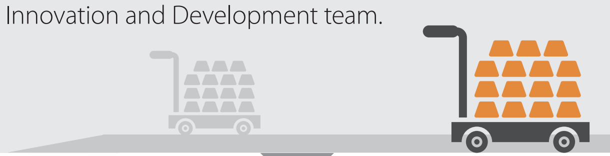
How we operate

Sourcing

The Group's main raw materials are cement, sand, aggregates, pigments, fuel oil and utilities. We use the best materials we can source. **Supply chain relationships** include the ethical sourcing of natural stone from India, China and Vietnam. The Group also has extensive reserves of UK natural stone.

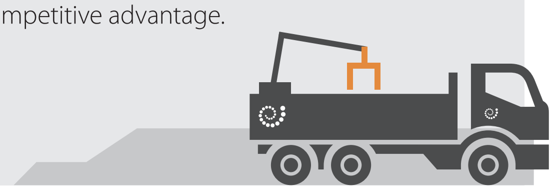
Manufacture

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



Distribution

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



Setting the standards

Marshalls is a benchmark for excellence, and continues to be widely regarded as a leader in its field. Marshalls is proud of its status as market leader, and is dedicated to retaining and consolidating its position and being the supplier of choice for hard landscaping materials for Public Sector and Commercial and Domestic customers.

Quality and service

We set industry leading standards of product quality, availability and "on-time" delivery. We are committed to producing **new products that better any existing market offering**.

Customers

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

How we add value

Leadership

Sustainability

Trust

Our resources

- Our brand
- Our values
- Our people

Our customers

- Homeowners
- Commercial

Our strengths

Customer service

- Industry leading standards
- Quality, availability and "on-time" delivery

Product innovation

- New and innovative products
- Machinery design and installation

Technical expertise

- World-class Manufacturing, Innovation and Development team
- Skilled engineers and technicians

Our value creation

Shareholders

- Progressive dividend policy
- Targeting 2 times dividend cover over business cycle

People

- Employee engagement
- Promote development and personal growth
- Living wage company

Customers

- Centre of business model
- Quality products and exceptional service

Communities

- Business in the Community
- Responsible business practices

The business

- Re-investment (R&D, capital expenditure)
- Drive sustainable growth

Excellence

Innovation in Action

Highway drainage innovation

Mono Beany in situ

Because of its many benefits Mono Beany is already proving to be popular and has been used on a number of projects including the recent upgrade of the M1 motorway, for which Marshalls has supplied around 33,000 metres.

Innovation life cycle: Mono Beany

Mono Beany is a one-piece combined kerb and drainage system for removing surface water from highways.

Intelligence

Based on strategic growth areas of the business a number of factors are considered.

Because of climate change extreme weather events are becoming more commonplace in the UK which in turn has led to more flooding. The need for better management of rainfall has led to water management becoming a strategic growth area for Marshalls.

Innovation

Intelligence is fed to Marshalls' innovation team, whose role it is to generate product ideas and design. In this case the team developed Marshalls' one-piece kerb and drainage product, Mono Beany.

Idea portfolio
Mono Beany, along with a range of water management products, sits within the idea portfolio waiting for further development.

Delivery

Investment
Marshalls invests in the production of a prototype, the testing and the equipment and machinery necessary for the Mono Beany manufacturing process.

Product management
Marshalls' Water Management Marketing team undertakes all the necessary work to bring Mono Beany to market.

Manufacture
Marshalls manufactures Mono Beany at one of its concrete manufacturing facilities located in West Yorkshire.

Chairman's Statement

Building for now and the future

Our objective is to deliver sustainable growth in shareholder value based on our vision to establish Marshalls as a world-class hard landscape business.

Summary

- Core values remain leadership, excellence, trust and sustainability.
- Entered FTSE 250 with significant growth in revenue and profitability.
- Well placed to make further progress in the year ahead.
- Full-year dividend of 7.00 pence (up 17%) and a discretionary supplementary dividend of 2.00 pence.

Andrew Allner
Chairman

Overview

I am pleased to report that 2015 has been another good year for Marshalls and that we are well placed to make further progress in the year ahead. All of our businesses have performed well, achieving significant growth in revenue and profitability with benefits arising from favourable market conditions and strong operational gearing. Since the half year, the Group has entered the FTSE 250, which further demonstrates the continuing progress in the business.

Our core values of leadership, excellence, trust and sustainability generate a strong underpin for all we do and provide a foundation on which to build for the future. Our primary objective is to improve profitability and to deliver long-term sustainable value for our shareholders.

Results

Marshalls' revenue is up 8 per cent to £386.2 million for the year and profit before tax is up 57 per cent to £35.3 million. The Group's earnings per share at 14.32 pence is up 41 per cent. These results reflect our focus on customer service, the strength of the Marshalls brand, our range of innovative quality products and the improved performance of our smaller businesses.

Dividends

The Board recognises the importance of dividends to our shareholders. Marshalls has strong cash generation and a robust balance sheet and this supports our progressive dividend policy. As previously stated, the Group maintains the objective of achieving up to 2 times dividend cover over the business cycle. The Board is recommending a final dividend of 4.75 pence (2014: 4.00 pence) per share which, together with the interim dividend of 2.25 pence (2014: 2.00 pence) per share, represents a total ordinary dividend of 7.00 pence (2014: 6.00 pence) per share.

In addition, in light of the Group's strong free cash flow, the Board has reviewed its approach to dividends in order to ensure we maintain an efficient and prudent capital structure which looks to provide increased returns to shareholders whilst at the same time retaining flexibility for capital and other investment opportunities. As a result, the Board is declaring a supplementary dividend of 2.00 pence per share this year; this supplementary dividend is discretionary and non-recurring.

Taken together, the ordinary and supplementary dividends comprise an aggregate distribution for the year of 9.00 pence per share. The final ordinary dividend of 4.75 pence per ordinary share will, subject to the shareholders' approval at the Annual General Meeting on 18 May 2016, be paid alongside the supplementary dividend of 2.00 pence per share on 8 July 2016 to shareholders on the register on 3 June 2016.

Strategy

As your Chairman, it is my responsibility to lead and manage the Board in relation to the formulation of strategy. Our objective is to deliver sustainable growth in shareholder value based on our vision to establish Marshalls as a world-class hard landscape business. We have returned to pre-recession profitability which completes Phase 1 of our strategy. Phase 2 charts our strategy to 2020 and is outlined in the Chief Executive's Statement.

Key relationships are particularly important and Marshalls' success is critically dependent on the positive interaction between the Group's employees, customers, suppliers and other stakeholders.

The Marshalls brand remains central to our strategy and the Group has again received "Superbrand" status for 2016. Marshalls is a benchmark for excellence and the 3 cornerstone themes of customer service, quality and sustainability remain essential to the brand and put the customer at the very heart of our business. Continual innovation and new product development remain key priorities.

Governance

As a Board we are committed to promoting the highest standards of corporate governance and ensuring effective communication with shareholders. We continue to comply with all of the provisions of the UK Corporate Governance Code as outlined in our Corporate Governance Statement on pages 36 to 41.

This year's Annual Report further develops the improvements that we introduced last year and contains a number of additional features that aim to improve clarity for shareholders. We believe this will continue to ensure a fair, balanced and understandable assessment of the Group's position and prospects.

In my report last year I set out a number of specific Board actions for 2015 including further consideration of strategic issues, increasing focus on dynamic risk reporting, identifying particular business areas for closer review and increasing opportunities for Non-Executive Directors to meet senior management below Board level through a programme of site visits. I am pleased to report that all of these commitments have been addressed and significant progress has been made in all areas. The Board continues to maintain an open and transparent culture and no restrictions or pressures are placed on Board members that could result in views or opinions not being expressed.

The Group aims to be transparent throughout its operations and I am pleased that, during 2015, Marshalls has been awarded the Fair Tax Mark for responsible tax behaviour and transparency in its tax affairs.

Board development is a constant priority and we continue to challenge the effectiveness of the Board against detailed and continually developing performance criteria. During the year, an internal evaluation of Board performance was conducted by the Group Company Secretary. The review sought to improve the effectiveness of the Board as a whole and of individual Directors. I am pleased to report that no areas of material concern were highlighted although a number of areas were identified for improvement during 2016. These include further consideration of longer-term strategy planning, risk management and business resilience. Additional consideration will also be given to Board succession planning along with greater focus on succession planning below Board level. I will report on progress against these initiatives next year.

36 Corporate Governance **page 36**

Under our Remuneration Policy, the management receives a large proportion of their remuneration in shares which must be retained for up to 5 years. This ensures a strong alignment between the interests of management and our shareholders. I am also delighted that we have launched the Marshalls 2015 Sharesave scheme which encourages wider ownership of Marshalls plc shares across the entire workforce. The scheme gives employees the option in the future to buy shares at a discounted price and has been extremely well received.

Board changes

Alan Coppin is retiring from the Board following the Annual General Meeting in May 2016, having served as Non-Executive Director, Senior Independent Director and Chairman of the Remuneration Committee since May 2010. He has demonstrated strong independence of thinking and has been a wise and supportive counsel to me in his role as Senior Independent Director. I would like to thank Alan for his significant contribution over the last 6 years.

In March 2015 I was delighted to welcome Janet Ashdown to the Board. Janet is a Non-Executive Director of SIG plc and the Coventry Building Society and has a wide range of skills and experience. She was also recently appointed to the Board of the Nuclear Decommissioning Authority. Following Alan Coppin's retirement from the Board, Janet will become the Senior Independent Director and Chairman of the Remuneration Committee.

People

Marshalls has an outstanding group of employees and we continue to place great importance on employee engagement. Our objective is to provide successful careers for our employees and opportunities for development and personal growth. On behalf of the Board I would like to thank all our employees for their professionalism and their ongoing support, commitment and dedication to Marshalls.

Outlook

The Group is well positioned to achieve further growth and looking ahead I remain very optimistic. Market conditions are forecast to be positive for the next few years. We have a clear strategy, a strong management team, an excellent workforce and a significant opportunity. I am therefore looking forward to further growth in the year ahead.

Andrew Allner
Chairman

Innovation

We combine clever engineering and technology with imaginative ways to save time and costs across all disciplines, from **innovative paving options**, to **sustainable urban drainage systems** and the very latest in **creative street furniture solutions**.

Chief Executive's Statement

Driving growth

The Group's strategy is to grow the business organically and selectively through acquisitions, improving the Group's return on capital employed and operating profit margins. This will be supported by the 2020 strategy.

Summary

- Profit before tax up 57% to £35.3 million with significant benefits from operational gearing.
- Significant performance improvement in our smaller UK businesses.
- Focused on innovation and new product development to strengthen the Marshalls brand.
- Committed to maintaining the highest health and safety standards.

Martyn Coffey
Chief Executive

Introduction

2015 has been a good year for Marshalls with significant revenue and profit growth. Trading conditions remain positive and the Group continues to experience strong order intake and sales growth.

Our core Public Sector and Commercial and Domestic businesses delivered strong performances without any significant increases to the Group's cost base as we continue to deliver benefits from operational gearing. Our network of manufacturing sites continues to have sufficient capacity to absorb medium-term demand as well as the flexibility for further capacity and capability investment. There has also been a significant performance improvement in our smaller UK businesses during 2015 and they collectively delivered year on year growth in revenue of £8.7 million and operating profit of £2.4 million. These businesses include Street Furniture, Mineral Products and Stone Cladding, all of which are now profitable.

Marshalls has a strong market position and continues to be a leading, trusted brand with clear values and excellent environmental credentials. The core values of leadership, excellence, trust and sustainability continue to be at the heart of the Marshalls brand. Marshalls plc was the winner of the "Best Construction and Materials PLC" category at the 2015 UK Stock Market Awards.

2015 trading summary

Marshalls' revenue for the year ended 31 December 2015 increased 8 per cent at £386.2 million (2014: £358.5 million).

Sales to the Public Sector and Commercial end market were up 11 per cent for the year, compared with 2014, and sales to the Domestic end market were up 4 per cent. The survey of domestic installers at the end of February 2016 revealed order books of 10.5 weeks (February 2015: 9.0 weeks).

Adjusting for currency movements, International revenue has grown by 3 per cent during 2015 and represents approximately 5 per cent of Group sales. Due to the adverse movement in exchange rates, however, this translated to a fall of 5 per cent once converted into Sterling. Although the market in Europe remains more challenging, the Group delivered continued progress in developing its International business during the year, and has opened a sales office in Dubai to facilitate further sales growth in the Middle East.

Profit before tax increased by 57 per cent to £35.3 million (2014: £22.4 million) and EBITDA increased by 35 per cent to £51.8 million (2014: £38.5 million). Basic EPS from continuing operations was 14.32 pence (2014: 10.13 pence), an increase of 41 per cent. Return on capital employed ("ROCE") was 19.0 per cent, which represents an increase of 52 per cent.

Significant cash generation has seen the Group's net debt fall to £11.5 million (2014: £30.5 million).

Delivering the 2020 strategy

To achieve our revenue growth the Group will target organic growth in all core business lines. This will be driven by our focus on innovation and new product development. We will also seek to extend our product range to provide more integrated solutions and look to use our digital strategy to better the customer experience. We will also further strengthen our logistics and distribution capabilities through investment. Prices will cover any cost increases during the period to 2020. Any acquisition activity will be on top of this organic growth.

Work has commenced on a number of capital investments. Good opportunities are being developed which will provide a timely payback. These investments will total £15 million and be made over the next 2 - 3 years. They will deliver cost savings of £5 million per annum and are in addition to our normal annual capital expenditure programme.

Greater focus has been given to the smaller UK businesses and they are all delivering increased profitability. These businesses have good future potential. We believe we can grow our market share through excellent customer service and targeted investment in these businesses.

There has been success in the last few years with our new product development. The Group will continue to focus on innovation and new product development to drive sales growth. Commercial demand for Water Management, Street Furniture, Rail and New Build Housing is increasing and all these businesses have developed new products that have been recently introduced in their markets. The Group's new range of water management products and sustainable drainage systems demonstrates innovative thinking and could have an important part to play in reducing the risk of flooding. The new Drexus linear drainage system is being launched for 2016 along with a new and innovative range of paving products that incorporate new surface technology.

In the core Landscape Products business, revenue from new products increased by 14 per cent during 2015. The current development pipeline remains very strong and the Group has committed further investment to research and development over the medium term to drive innovation and new product development.

The Group continues to pursue acquisition opportunities in the focus areas of Water Management, Street Furniture and Mineral Products. A shortlist has been developed and there are ongoing discussions. We have discounted certain targets due to unrealistic price expectation and lack of fit. There remains a positive pipeline of good opportunities.

Current priorities and operational strategy

Operational priorities are service, quality, design, innovation and sustainability and the Group continues to deliver the benefits of improved product mix and an integrated product offering. The objective remains to continually strengthen the Marshalls brand by ensuring a consistently high standard of quality and customer service. Marshalls continues to have customer service as a key KPI and we maintain industry leading standards of product quality, availability and "on-time" delivery. The Group's combined customer service measure continued to be in excess of 98 per cent throughout 2015.

The Group's Domestic strategy is to drive sales through approved domestic installers. The Marshalls Register has grown by 5 per cent in the last year to 1,862 teams and consistently provides high standards of quality and a market-leading level of service.

Marshalls' wide-ranging digital strategy is a key priority and further investment is being directed to enhancing capability and digital support throughout the business, including product design and customer service. The Group's strategic initiatives are set out in detail in the Strategic Report on pages 16 to 17.

In September 2015, Marshalls opened its new office "Design Space" in Clerkenwell, London. This is an important initiative for the Group and the facility was created specifically with architects and designers in mind. The location is at the centre of the highest concentration of architects in the UK and has a wide range of materials and finishes on display to help inspire and assist them in making specification decisions. The architects and designers are a key part of the route to market for Marshalls.

Manufacturing efficiency

We continue to focus on improving manufacturing efficiency. In the UK, the Group has a unique manufacturing network of 13 concrete manufacturing sites as well as quarries producing paving, walling and cladding products. This national network provides unrivalled geographic coverage and this continues to provide the Group with a distinct competitive advantage with all of the Group's operations supported by a centrally managed logistics and distribution capability.

Well invested capital equipment provides the flexibility to manufacture products for both the Public Sector and Commercial and the Domestic end markets and this operational flexibility remains a key focus for the Group. Marshalls employs a world-class Manufacturing, Innovation and Development team of engineers and technicians which creates competitive advantage by combining machinery design and installation with process improvement. This capability enabled the Group to accelerate new product development across the business.

The Group operates its own fleet of 44-tonne delivery vehicles equipped with crane offloading capability and state-of-the-art technology, including 360-degree CCTV systems and audible manoeuvring alerts. The Group remains committed to improving the quality and safety of the working environment by maintaining the highest health and safety standards.

Martyn Coffey
Chief Executive

Growing our business

We are growing our business both organically and selectively through acquisitions.

Markets

Marshalls continues to focus on innovation

The outlook remains strong with the CPA's current forecast for construction output standing at 3.6 per cent growth in 2016 and growth of 4.1 per cent, 4.2 per cent and 4.0 per cent in the following 3 years.

Economic market background

The key fundamentals for the sector remain positive with construction growth becoming more balanced. Private housing work, especially in London and the South East, provided the majority of growth between 2012 and 2015. Going forward, however, the 3 largest construction sectors of private housing, commercial and infrastructure are all expected to drive industry growth.

In January 2015, the CPA forecast solid UK GDP growth in 2016 and 2017, despite a slowdown in economic activity in the second half of 2015. The ONS's preliminary estimate for GDP growth in quarter 4 was 0.5 per cent. The CPA's GDP forecast for 2016 is growth of 2.2 per cent and that construction output in 2016 will rise by 3.6 per cent.

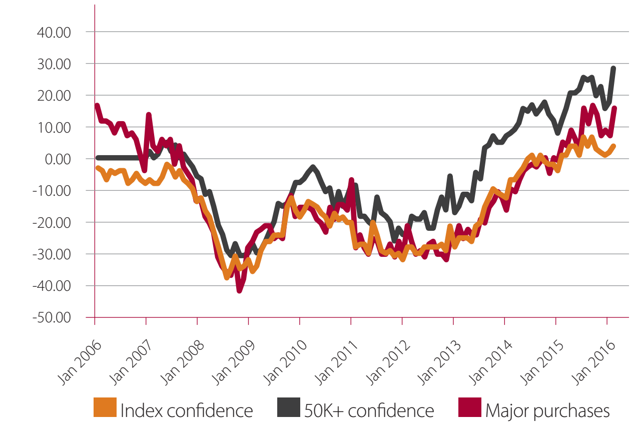
For the Domestic end market, the key factors that drive activity are property transactions and consumer spending on large ticket items. Increasing housing equity and savings are enablers of activity in the sector as they are used as sources of finance for housing repair maintenance and improvement activity. The CPA has reported that in 2015, the Private Housing Repair, Maintenance and Improvement sector was worth an estimated £17 billion. In terms of funding streams for this work, the Office for Budget Responsibility ("OBR") forecast that house prices will rise 4.8 per cent and 4.7 per cent in 2016 and 2017 respectively.

Consumer confidence has remained strong throughout 2015 with the indications showing improvement, especially in early 2015.

For 2015, GDP in the Eurozone is estimated to have risen by 1.5 per cent and growth in 2016 is expected to be the same, primarily due to rising domestic demand.

Consumer confidence indicators – 10 years

Research carried out by GFK NOP on behalf of the European Commission



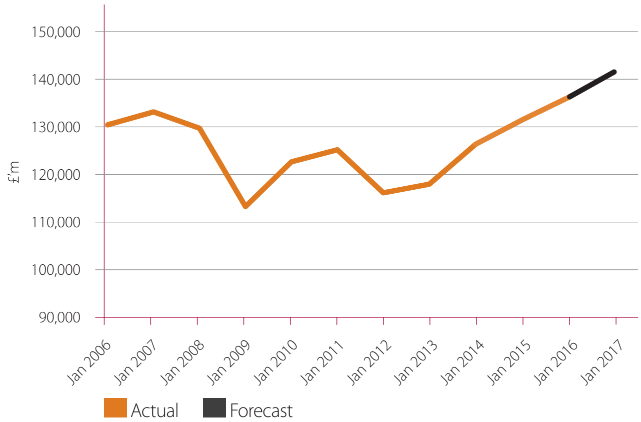
Market

Public Sector and Commercial

Marshalls continues to be the only landscape products company able to provide a fully integrated product offer to the Public Sector and Commercial end market. The Group focuses on developing products which help architects, local authorities, engineers and contractors to "Create Better Spaces", whether it is street furniture, natural stone, concrete block paving, water management, lighting or protective anti-terrorist products. The Group continues to invest in product innovation, sales and technical resource for those parts of the market where it anticipates most growth, in particular in Water Management, New Build Housing and Rail Infrastructure.

The CPA's overall view is that in the short term it is private housing and infrastructure that will drive growth in construction output. Private housing starts are forecast to rise 5.0 per cent in 2016 and

UK construction all work actual and current forecast (CPA)



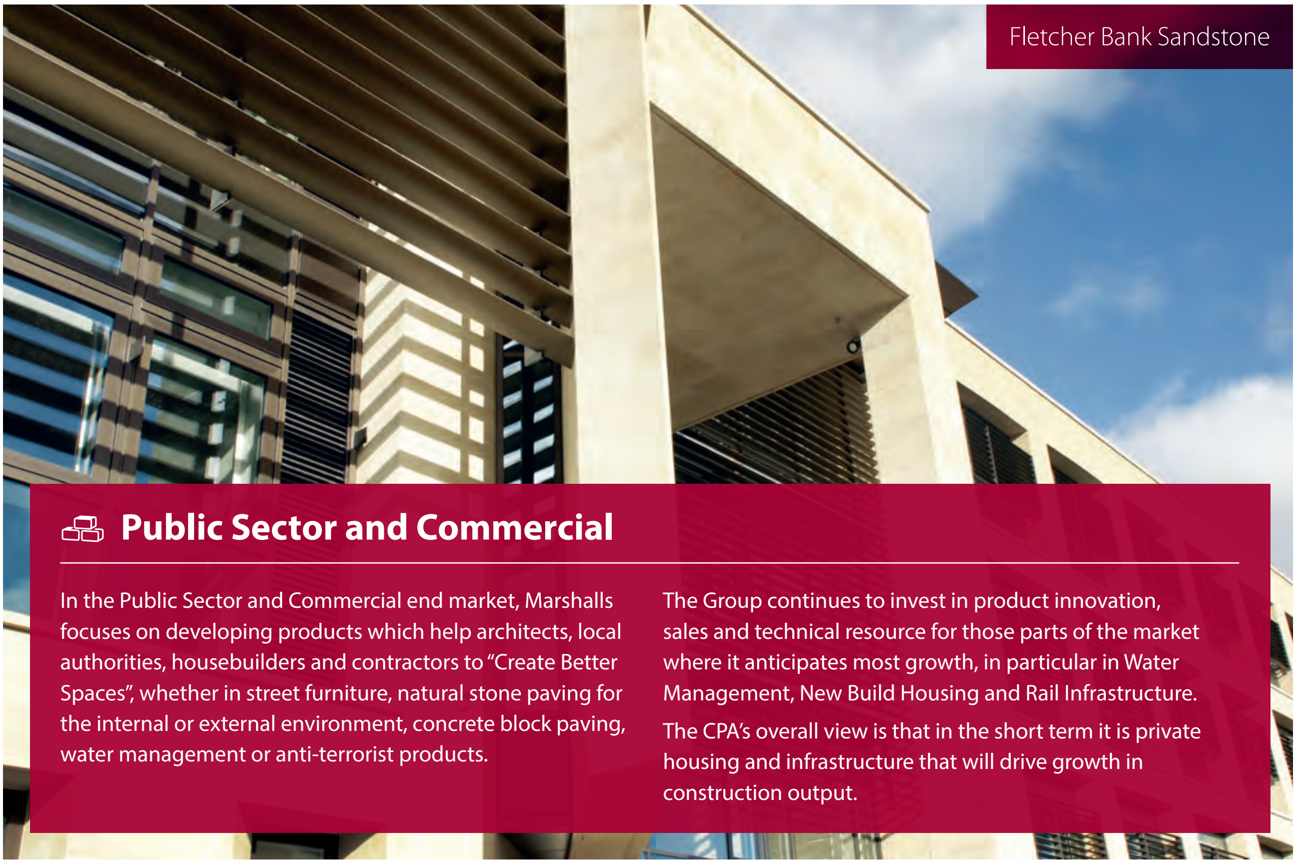
a further 5.0 per cent in 2017, buoyed by a high latent demand for home ownership, helped by rising mortgage lending and Government policies such as the London "Help to Buy" scheme, the Starter Homes programme and the Help to Buy ISA. These policies are likely to fuel house price inflation further (especially in the South East) whilst also incentivising major housebuilders to increase building programmes over the next 12 - 18 months.

The CPA forecasts that activity in the infrastructure sector is set to rise 56.9 per cent by 2019 with significant growth in rail, energy, roads, water and sewerage activity as major projects across the sector add to rising general work levels. Rail Infrastructure will be primarily driven by Network Rail general activity but also boosted by HS2. Road construction is forecast to rise by 37.2 per cent by 2019.

The Group has experienced technical and sales teams focused on the key growth areas and by working with clients, architects and contractors they are able to provide a unique project overview and offer a complete solution comprising a full suite of products. Strengthening relationships with clients, architects and contractors and the developing of systems to identify projects are key priorities. The visibility of projects through externally measured sources such as Barbour ABI has historically provided a reliable picture of future demand.

It consolidates planning information for all the sub sectors requiring hard landscaping. On average, there is a 12-month lag between contracts being awarded and the landscape products being required, so it provides 12-month advance information on likely future demand.

Contract awarded 12 month rolling average of hard landscape value



Fletcher Bank Sandstone

Public Sector and Commercial

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

The Group continues to invest in product innovation, sales and technical resource for those parts of the market where it anticipates most growth, in particular in Water Management, New Build Housing and Rail Infrastructure.

The CPA's overall view is that in the short term it is private housing and infrastructure that will drive growth in construction output.

Markets *continued*

Market *continued*

Domestic

Marshalls' Domestic customers range from professional landscapers, driveway installers and garden designers to DIY enthusiasts. The Group is committed to offering homeowners the inspiration, information and ranges needed to choose the best possible products for their patio or driveway makeovers.

The target customer groups for installed patios and driveways occupy 8.7 million homes, a far bigger potential market than New Build. These customers are generally older, have equity in their property, earn more and often have savings. An ageing population is combining with a lifestyle trend towards more outdoor living and the "outdoor room". Through marketing and product development the Group continues to promote solutions to meet the aspirations of these customer groups. Pension release is having a positive impact on the home improvement market; in the last 3 quarters of 2015 188,000 over 55s took a total of £3.5 billion in cash out of their pension pots, with 32 per cent of this being spent on home improvements.

> The Marshalls Register remains the largest installer scheme in the UK."

The Group's Domestic strategy is to drive more sales through quality installers and membership of the Marshalls Register grew in 2015. Further increase is planned in 2016. The Marshalls Register remains the largest installer scheme in the UK. Marshalls continues to focus on product innovation with a developing product portfolio helping installers to finish jobs more quickly.

Domestic

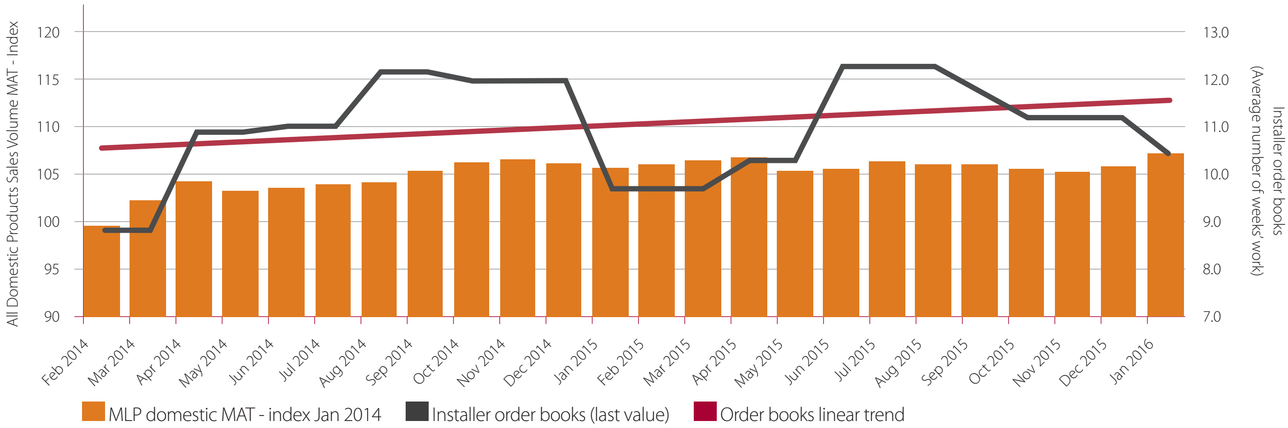
Marshalls' Domestic customers range from professional landscapers, driveway installers and garden designers to DIY enthusiasts.

The Group is committed to offering homeowners the inspiration, information and ranges needed to choose the best possible products for their patio or driveway makeovers.

The target customer groups for installed patios and driveways occupy 8.7 million homes, a far bigger potential market than New Build.

Pension release is having a positive impact on the home improvement market; in the last 3 quarters of 2015 188,000 over 55s took a total of £3.5 billion in cash out of their pension pots, with 32 per cent of this being spent on home improvements.

Installer order books & domestic sales volume (index)



International

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

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

Marshalls now has a sales presence in North America and is supplying natural stone to commercial projects using distribution relationships with US companies.

In 2015, Marshalls supplied a number of high profile projects in the Middle East, in particular focusing on driving sales in the United Arab Emirates, Kuwait and Qatar. A new sales office has been recently established in Dubai to facilitate further growth in the region.

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

Strategy

Focused on growth

Shareholder value

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

What we have achieved

- Substantial increase in share price during the year.
- Entry to FTSE 250.
- Growth in ROCE to 19.0%.
- Market share gains.
- Supplementary dividend.

Our future targets

- To make strategic investments for organic growth and acquisitions.
- To have a progressive dividend policy.
- To deliver sustainable EPS and operating cash flow growth.
- To grow EBITDA.

Sustainable profitability

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

What we have achieved

- 48% growth in operating profit driven by operational gearing.
- Increase in operating profit percentage to 9.7% (2014: 7.1%).
- 14% growth in sales of new products in the core business.

Our future targets

- To deliver strategic growth initiatives.
- To improve product mix and promotion of new value-added products.
- To improve operational efficiency of manufacturing and distribution network.

Relationship building

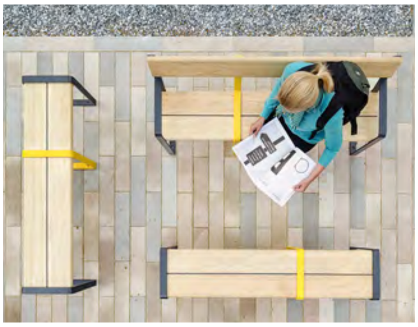
To develop relationships with key stakeholders, customers and installers.

What we have achieved

- Strengthened customer relationships.
- 98% customer service KPI.
- Integrated "landscaping solutions".
- Opening of Design Space office in Central London.
- Over 1,800 registered installer teams.

Our future targets

- To promote integrated product offer.
- To focus on installer training, marketing and sales support.
- To be an employer of choice.
- To maintain ethical and sustainable policies.
- To be a system provider.



18 Key Performance Indicators **page 18**

20 Risks **page 20**

Left – Loci Street Furniture
Middle – Brentford Marketplace, Essex
Right – Trustone Paviors, Fellstyle

Organic expansion

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

What we have achieved

- Revenue growth of 8% to £386.2 million.
- Significant growth in key focus areas and smaller UK businesses.
- Increased capacity whilst maintaining operational flexibility.
- Opened sales office in Dubai.

Our future targets

- To target growth areas such as Water Management, Street Furniture, Rail and New Build Housing.
- To increase capital expenditure.
- To maintain a national network of manufacturing and distribution sites.
- To extend global reach into specific targeted areas such as the Middle East and North America.

Brand development

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

What we have achieved

- "Superbrand" status.
- Full integration of Marshalls brand.
- Improved integration in marketing collateral.
- Established the new Marshalls "Stone Standard". Marshalls exceeds the standard.

Our future targets

- To maintain the Group's market-leading position.
- To focus on innovation, customer service and product quality.
- To increase technical R&D.
- To maintain the highest health and safety standards.

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.

What we have achieved

- Net debt reduced to £11.5 million.
- Efficient portfolio of bank facilities with extended maturities and realigned headroom.
- Continued focus on working capital management and efficient inventory control.

Our future targets

- To maintain a flexible capital structure that recognises cyclical risk, focusing on security, efficiency and liquidity.
- To target a net debt to EBITDA ratio of between 1 and 2 times over the business cycle.
- To operate tight control over business, operational and financial procedures.

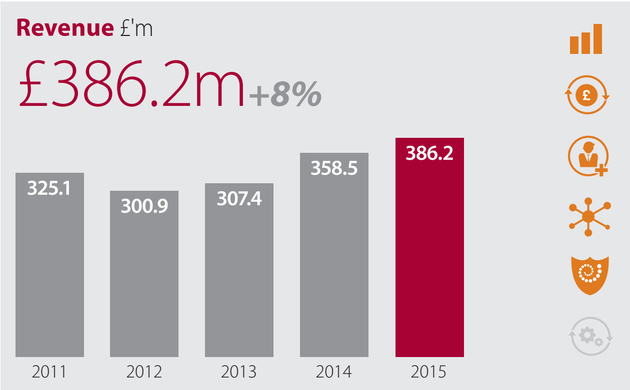
24 Sustainability **page 24**

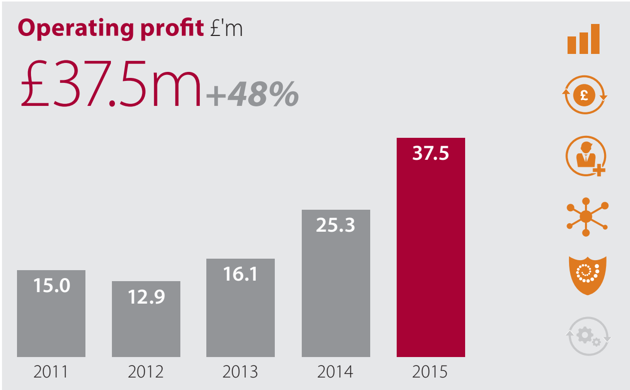
46 Remuneration **page 46**

Left – Street Furniture Customer Showroom
Middle – Cordara, Iberian Oak
Right –York Minster

Key Performance Indicators

The Group's KPIs monitor progress towards the achievement of its objectives. All of the Group's strategic KPIs have improved significantly during 2015.





Performance and targets

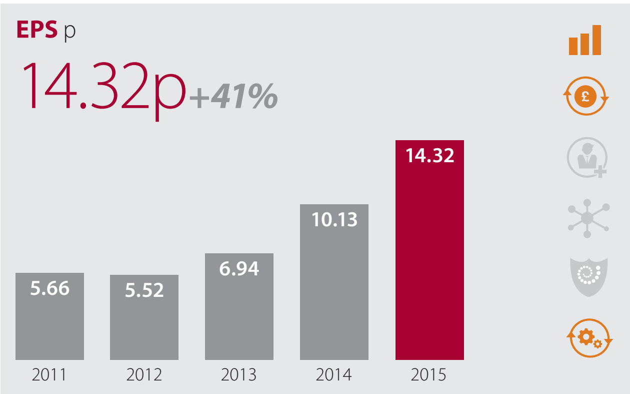
Group revenue has increased by 7.7 per cent in 2015. Public Sector and Commercial revenue has grown by 10.8 per cent in 2015 and Domestic revenue has increased by 3.6 per cent.

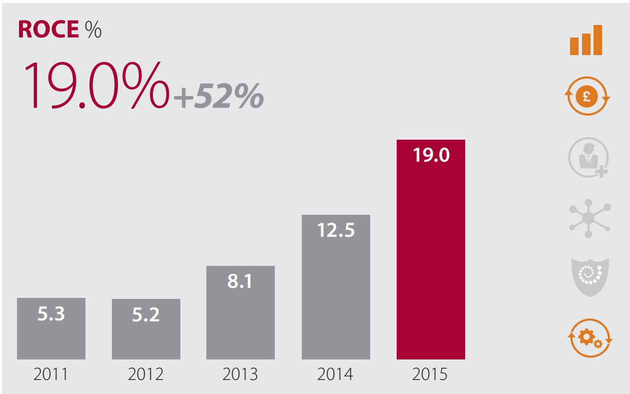
Operating profit has increased by 48.0 per cent to £37.5 million in 2015. The Group's strong operational gearing has driven an increase in reported operating margin from 7.1 per cent to 9.7 per cent, which represents an increase of 36.6 per cent.

Risk management

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

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





Performance and targets

Group EPS has increased by 41.4 per cent in 2015 to 14.32 pence. Significant EPS growth is a strategic target.

Group ROCE is 19.0 per cent for the year ended 31 December 2015, which represents an increase of 52.0 per cent during the year. The strategic target is for ROCE to be at least 15 per cent. ROCE is defined as EBITA / shareholders' funds plus net debt.

Risk management

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

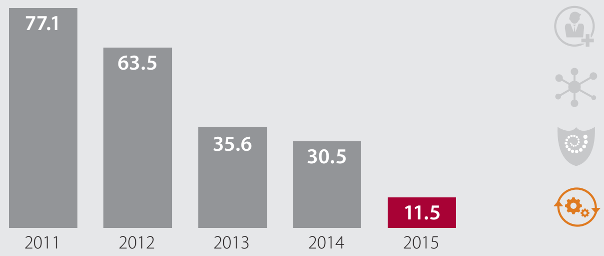
The Group focuses on sales opportunities and strategic growth opportunities.

Strategic objectives

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

Net debt £'m

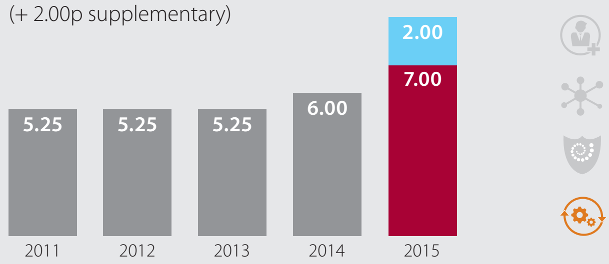
£11.5m



Dividend per share (recommended) p

7.00p +16.7%

(+ 2.00p supplementary)



Performance and targets

The Group's strategic target is for the ratio of net debt to EBITDA to be between 1 and 2 times over the business cycle. At 31 December 2015 the ratio was 0.2 times.

A progressive dividend policy remains a key objective, with the continuing strategy of maintaining up to 2 times cover over the business cycle. On an IFRS basis, the dividends declared in the year ended 31 December 2015 are 6.25 pence.

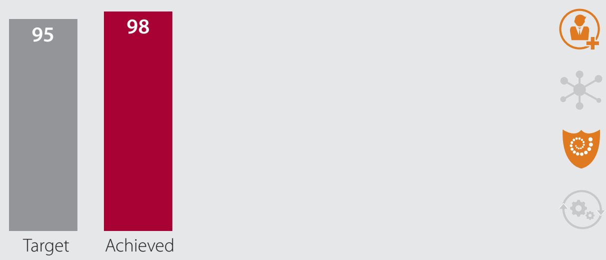
Risk management

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

The final dividend recommended is 4.75 pence per share which, including the interim dividend of 2.25 pence, gives a total for the year of 7.00 pence. For the year ended 31 December 2015 a supplementary dividend of 2.00 pence per share is being recommended.

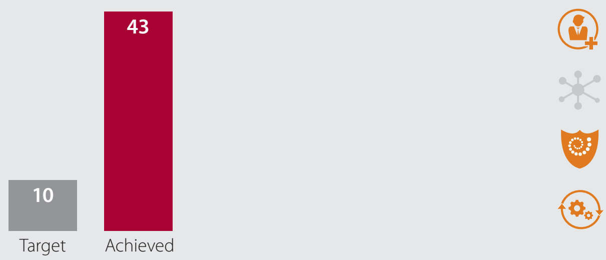
Customer service Customer service index

98%



Health and safety Reduction in working days lost

43%



Performance and targets

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

Marshalls remains committed to meeting the highest health and safety standards for all its employees and continually strives to improve the quality and safety of the working environment. The headline target for 2015 was a 10 per cent reduction in days lost resulting from workplace incidents against 2014.

Risk management

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

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

Risk Management and Principal Risks

Managing risk to deliver strategic objectives

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. During 2015, the Risk Register process has been independently reviewed by KPMG, in its capacity as the Group's internal auditor, and a number of design improvements have been incorporated. The conclusion of this review has been that the process continues to be a robust mechanism for monitoring and controlling the Group's principal risks.

The Group Risk Register is reviewed and updated at least every 6 months by management and twice a year by the Board, and the overall process is the subject of regular review. Risks are recorded with a full analysis and risk owners are nominated who have authority and responsibility for assessing and managing the risk. All risks are 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. External risks include the weather, political and economic conditions, the effect of legislation or other regulatory actions, the actions of competitors, foreign exchange, raw material prices and threats from cyber security, new technologies and business models. Internal risks include investment in new products, new business strategies and acquisitions. Environmental and sustainability considerations are also taken into account.

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.

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:

— undertakes independent reviews of effectiveness of internal control procedures;

— reports on effectiveness of management actions; and

— provides assurance to the Audit Committee.

Operational managers:

— are responsible for identification of operational and strategic risks;

— are responsible for ownership and control of specific risks; and

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

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 (page 23).

Nature of risk	Potential impact	Mitigating factors	Change
Macro-economic and political			
The Group is dependent on the level of activity in its end markets. Accordingly, it is susceptible to economic downturn and the impact of Government policy. The availability of credit to the Group's customers is a key determinant of economic activity.	The lower activity levels could reduce sales and production volumes and, therefore, could have an adverse effect on the Group's financial results.	The Group closely monitors trends and lead indicators, invests in market research and is an active member of the CPA. The Group benefits from the diversity of its business and end markets. The Group focuses on sales opportunities and strategic growth initiatives, together with quality, service and its supply chain.	Economic risk has reduced as economic and sector outlook and growth rates have improved. There continues to be growth potential in certain focus areas, e.g. Rail, Water Management and Street Furniture, and forward indicators in the core business remain positive. The economic outlook for the Eurozone continues to be difficult, although proactive development of the product range continues to be positive.
Weather			
The Group is exposed to the impact of prolonged periods of bad weather.	The lower activity levels could reduce sales and production volumes and, therefore, could have an adverse effect on the Group's financial results.	The Group has a continuing focus on new product development, including landscape water management. The Group is developing its internal flooring offer and developing its international strategy in order to diversify its activities.	Weather conditions are totally beyond the Group's control.
Customers			
The UK business has a number of key customers, in particular the national merchants. This is partly as a result of the consolidated nature of this market.	The loss of a significant customer may give rise to a significant adverse effect on the Group's financial results.	The Group focuses on brand and new product development, quality and customer service improvement. The Group maintains a national network of manufacturing and distribution sites. The Group undertakes ongoing reviews of trading policies and relationships and maintains constant communication with customers.	Although the underlying risk continues, the effective management of key relationships and the ongoing diversification of the business are serving to mitigate the risk.

Strategic objectives

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

Risk Management and Principal Risks *continued*

Nature of risk	Potential impact	Mitigating factors	Change
Competitor activity			
The Group has a number of existing competitors who compete on range, price, quality and service. Potential new low cost competitors may be attracted into the market through increased demand for imported natural stone products.	The increased competition could reduce volumes and margins on manufactured and traded products.	The Group has unique selling points that differentiate the Marshalls brand. The Group focuses on quality, service, reliability and ethical standards that differentiate Marshalls from competitor products. The Group continues to have the lowest cost to market. The Group has a continuing focus on new product development.	The improved market outlook has increased demand (relative to available supply) and this has led to a reduction in such competitive pressure. There is continuing demand for imported natural stone products, although Marshalls' brand development and product differentiation continue to mitigate the risk.
Threat from new technologies and new business models			
Reduction in demand for traditional products. Risk of new competitors and new substitute products appearing. Failure to react to market developments.	The increased competition could reduce volumes and margins on traditional products.	Good market intelligence. Flexible business strategy able to embrace new technologies. Significant focus on research and development and new products. Development of a digital strategy.	The ongoing diversification of the business and the continued development of the Marshalls brand continue to mitigate the risk.
Cost and availability of raw materials			
The Group is susceptible to significant increases in the price of raw materials, utilities, fuel oil, haulage costs and vehicle availability. As demand increases, the Group is potentially more exposed to the risk of temporary raw material shortages.	The increased costs could reduce margins and may be further impacted in the event of imbalances in the mix of regional activity. The risk of market demand exceeding raw material supply could lead to inefficient production, which could reduce margins.	The Group benefits from the diversity of its business and end markets. The Group focuses on its supplier relationships, flexible contracts and the use of hedging instruments. The Group utilises sales pricing and purchasing policies designed to mitigate the risks. The Group uses specialist delivery vehicles.	Cost inflation remains a risk as demand for raw materials increases. The improved market outlook has increased demand (relative to available supply), but the risk of temporary shortages has stabilised due to proactive supply chain management and the use of alternative suppliers.
IT infrastructure			
Disruption to the IT environment could affect the Group's ability to conduct its ongoing operations.	Ineffective procedures could lead to an adverse effect on the Group's financial results.	All IT system development projects are actively and carefully planned with defined governance and control procedures. Regular independent risk and project management audits are undertaken. The Group ensures that industry standards are adopted and disaster recovery plans and procedures exist and are regularly tested.	The continued investment in and maintenance of IT systems across the Group give rise to good control of this risk.
Cyber security risks			
Inadequate controls and procedures over the protection of intellectual property, sensitive employee information and market-influencing data.	Risk of data loss – financial and reputational risk.	Use of IT security policies. Restructured IT department to co-ordinate the stewardship of cyber security risks. 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 under confidentiality agreements with reputable suppliers.	Currently a high profile area and considerable focus is being given to promoting awareness of IT security policies. 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).

Nature of risk	Potential impact	Mitigating factors	Change
Environmental			
The impact of the "Environmental Protocol" leads to the need for increasingly expensive processes. An environmental contamination event may lead to a prosecution and to reputational loss.	An incident could lead to disruption to production and to financial penalties as well as a potential negative impact on the Group's reputation.	The Group uses professional specialists covering carbon reduction, water management and biodiversity. The Group focuses on the implementation of ISO standards. The Group has a formal Group sustainability strategy focusing on impact reduction.	The Group is unable to predict future changes in environmental laws or policies or the ultimate cost of compliance with such laws or policies.
Corporate, legal and regulatory			
The Group may be adversely affected by an unexpected reputational event, for example, in its ethical supply chain or due to a health and safety incident.	An incident could lead to a disruption to the supply of products for customers and to increased costs as well as a potential negative impact on the Group's reputation. Significant increases in the penalty regime have increased the potential financial impact of health and safety incidents.	The Group employs compliance procedures, policies and independent audit processes which seek to ensure that local, national and international regulatory and compliance procedures are fully complied with.	The extension of the Group's activities into new international markets causes this risk to continue, notwithstanding the additional compliance procedures within the supply chain. Health and safety and the potential impact of the Bribery Act continue to be high profile risk areas.
Access to funding			
The Group continues to require debt funding in order to meet its trading obligations and to grow the business.	Insufficient access to funding could limit the Group's ability to achieve the desired levels of growth.	The Group has significant committed facilities in place, with a good spread of medium-term maturities and significant headroom. The Group's policy continues to be to arrange funding ahead of requirements and to maintain sufficient undrawn committed bank facilities.	The improved economic outlook and the Group's reduced gearing have continued to reduce this risk. There is also improved liquidity and increased competition within the banking sector.

Viability Statement

After considering the principal risks above, the Directors have assessed the prospects of the Group over a longer period than the 12 months required by the "going concern" basis of accounting. The Directors' separate statement on going concern is set out on page 45. The Directors consider that the Group's risk management process satisfies the requirements of provision C.2.2 of the 2014 revision 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 considers 3 years to be an appropriate period of assessment as this aligns with the Group's strategic plan and the Directors also consider that they have reasonable visibility of the market over this period. 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 has critically assessed downside scenarios that might give rise to sales volume reductions, deteriorating operating margins and increases in interest rates. The principal risks and uncertainties are set out above and, in the opinion of the Directors, the risk of economic downturn, linked to macro-economic and political factors, is the most significant driver in the stress test scenarios. The stress testing has used the financial impact of the last recession as the core sensitivity, with significantly reduced sales volumes giving rise to a 25 per cent decrease in revenue over a 2-year period and reflecting a 40 per cent fall in operating margin.

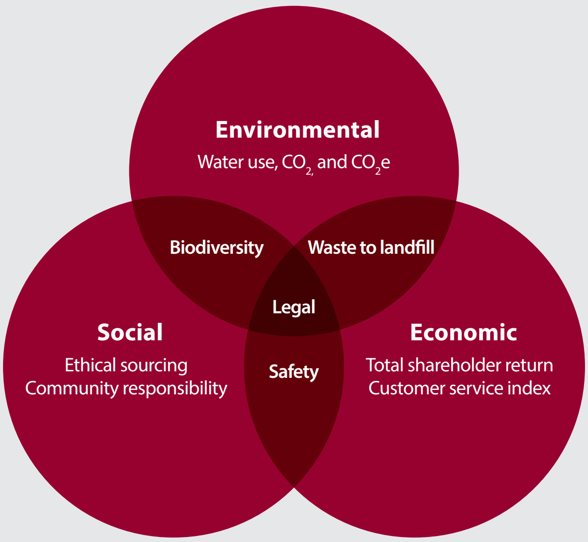
Based on this assessment, the Directors confirm that they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due for the next 3 years.

Sustainability

Corporate responsibility, an awareness and mitigation of adverse impacts on the environment, and positive engagement with our community and employees have long been core values of Marshalls.

Marshalls' sustainable business model

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, underpinned by the development of management systems recognised by an independent third party (BSI).



FTSE4Good membership

2,300 employees

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

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.

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

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

Employees

Marshalls continues to focus closely on the established values of leadership, excellence, trust and sustainability and to build these into all of its activities, not least those involving employees. We are firmly focused on encouraging all staff, no matter where they are based, to collaborate in all aspects, whether on work issues or as part of the Group's "Giving Back" programme, which continues to be a growing activity. The Group has raised a substantial amount for good causes during 2015. In 2016 our focus will be to support Prostate Cancer UK.

For the second year Marshalls is proud to be a "Living Wage Employer", underscoring its commitment to employees. In September 2015 we launched our employee Sharesave scheme, which enabled employees to save a fixed amount for a period of 3 years in order to buy discounted shares at a set price. The Sharesave offer was well received, with more than 900 employees (representing 46 per cent of the eligible workforce) applying to participate. This demonstrates a significant level of confidence on the part of our employees in Marshalls' future.

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.

We also remain committed to employing a diverse workforce and, in particular, encouraging more women to enter what has traditionally been a highly male-dominated workplace. Janet Ashdown joined Marshalls plc during 2015 as a Non-Executive Director. At the end of 2015 our workforce comprised 2,292 employees with the following gender balance:

	Male	Female
Total workforce	84%	16%
Senior managers	87%	13%
Directors	83%	17%

Employee engagement

In 2015 we participated, for the fifth successive year, in the Best Companies Workplace Engagement Survey, with over 85 per cent of employees taking part (an increase from 75 per cent in 2014). The Group also saw a positive increase in its Best Companies Index Engagement Score and we maintained our "One to Watch" status. We are working on detailed implementation plans that will address key focus areas that have arisen from the survey. These include "Fair Deal," "Giving Something Back," "Wellbeing," "Communications" and "Personal Growth." During 2016 we have a scheduled plan of monthly activities, covering "Wellbeing" and "Giving Something Back," which will enable employees both to improve their personal health and contribute to both our corporate charity partner, Prostate Cancer UK, and local causes. Company-sponsored social activities range from encouraging employees to take part in Sport Relief to a national "Walk This Way" campaign. The survey results are cascaded throughout all levels of the organisation, ensuring everybody understands the feedback. Employees are actively encouraged to take part during the planning stages, which will establish agreed actions to improve our employee engagement during the year ahead.

Communication with our employees on matters of concern to them is done in face-to-face briefings, via monthly newsletters, site notice boards and our Group intranet. We operate a structured consultation process in relation to pay and employment terms.

Employee development

We have identified a number of priorities across all aspects of the employee life cycle, from attraction and recruitment to personal growth and career progression. The introduction of a new centralised HR information system during 2015 has improved the quality of the Group's employee data metrics, which will be used to improve medium to long-term talent recognition and people development, the wider adoption of shared best practice across our business and the introduction of new cohesive initiatives.

Land at Moselden Quarry

Sustainability

We are committed to achieving the highest standards of environmental performance. Whether it is reducing our carbon footprint or promoting biodiversity at our works, we continue to strive for real environmental results in everything we do. We believe in demonstrating a high degree of social responsibility, working with the communities in the UK and overseas, and engaging with issues of social importance.

We aim to be the supplier of choice of innovatively designed ranges of the highest quality landscape and walling products to the architect, contractor and consumer. We believe in conducting our business in a manner which achieves sustainable growth and we believe in acting responsibly with all stakeholders.

Sustainability *continued*

Training and development

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

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

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 CO_2e emissions in line with the UK Government's targets (34 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 in the Government's Carbon Reduction Commitment Energy Efficiency Scheme ("CRC") by submitting its Annual Report and surrender of carbon allowances for the period April 2014 to March 2015 within the time limit imposed by the legislation. The Group successfully recertified to the Carbon Trust Standard up to December 2016. 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 ISO50001, gaining certification in November 2015. The Group continues to report voluntarily to the "Carbon Disclosure Project" receiving a 98B rating for its 2015 report. This report includes a wider carbon management performance over time and also provides an insight for shareholders regarding the Group's energy, carbon and climate change impact management programme.

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

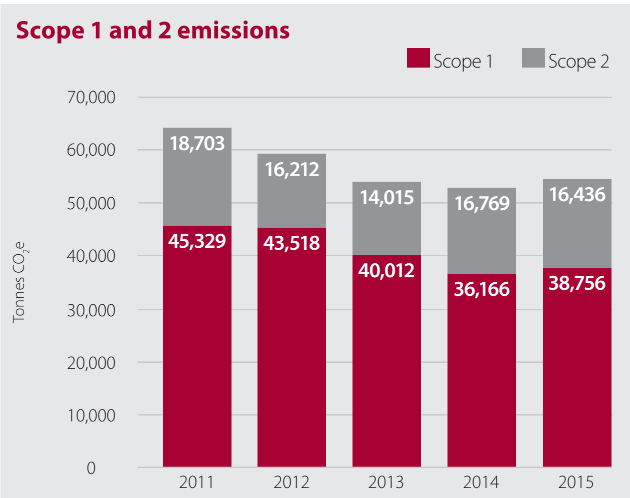
The Group has conducted audits of its UK fugitive emissions and found these to be less than 0.5 per cent of the Group's total emissions; accordingly, these are excluded from the report.

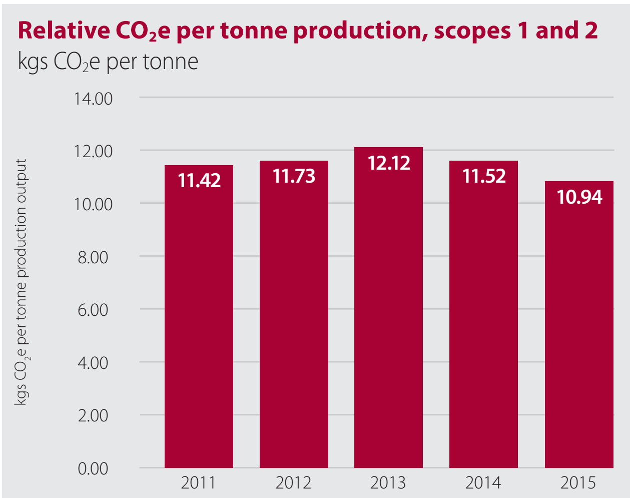
The chart below (left) illustrates the Group's UK absolute CO_2e emissions in tonnes, including transport activities, between 2011 and 2015.

The chart below (right) illustrates the Group's CO_2e intensity emissions as a proportion of production output, including transport activities, between 2011 and 2015.

A number of factors have contributed to the Group's energy performance during the year, including significant increases in outputs from continuing operations, product mix, weather (temperature impacting on the use of heating / cooling fuel) and energy management activities. During the year Marshalls increased its LGV fleet by 20 per cent; this resulted in a transfer of scope 3 to scope 1 emissions, an impact equivalent to 28 per cent of the scope 1 increase.

The Group reports that it is responsible for the GHG emissions of Marshalls NV. The CO_2 emission from Marshalls NV activities in 2015 was (absolute) 640 tonnes and (intensity) 8.49 kg per tonne production.





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

Carbon Disclosure Project
www.cdp.net

Environmental
www.marshalls.co.uk/EnvKPI2016

Marshalls remains committed to meeting the highest safety standards for all its employees, reinforcing and developing its safety processes, and developing a competent workforce.

Sustainability website
www.marshalls.co.uk/sustainability

Environmental reporting

Marshalls publishes its environmental KPI performance for the financial year in a separate document, the Marshalls Environmental KPI 2016 Report. This covers our energy performance in more detail, together with the reporting of our environmental governance, policies, management and key environmental impact areas such as waste, water and packaging. The Environmental KPI 2016 Report also details 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 2015 and contains no misleading information.

Health and safety

Marshalls remains 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, and this remains a key priority for the business.

Achievement of annual health and safety improvement targets is directly linked to the remuneration of the Executive Directors and senior management, as explained in the Remuneration Report.

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

The headline target for 2015 was a 10 per cent reduction in days lost resulting from workplace incidents against 2014. The actual reductions achieved were:

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

— 17.4 per cent reduction in all incident frequency rate;

— 29.2 per cent reduction in lost time incident ("LTI") frequency rate; and

— 51.5 per cent reduction in rate of incidents reportable to the HSE under the Reporting of Injuries, Diseases and Dangerous Occurrences Regulations ("RIDDOR").

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

Accident frequency and severity rates (per 1 million hours worked)*	2011	2012	2013	2014	**2015**
All accidents	83.2	69.5	65.6	59.1	**48.8**
All lost time accidents	15.5	14.0	12.2	7.2	**5.1**
All RIDDORs	8.1	6.1	3.6	3.3	**1.6**
All days lost	204.4	134.5	114.6	80.7	**45.8**
Average UK headcount	2,456	2,252	2,055	2,132	**2,237**

* To align our accident statistics with those of the Mineral Products Association our base unit of measurement has changed to 1 million hours worked. Previous years' results have been amended to reflect this change.

During 2015, the Group has invested additional resources in health and safety awareness training through its "Visible Felt Leadership" initiative, which has now been delivered to all managers and supervisory staff.

The industry leading fleet safety standards were recognised at the 2015 Chartered Institute of Logistics and Transport Awards for Excellence with Marshalls winning the prestigious "Safety" category.

Marshalls was also the winner in both the "Engineering Initiatives" and the "Behavioural Safety, Safety Culture and Leadership" categories at the Mineral Products Association's 2015 Health and Safety Awards.

Financial Review

Delivering growth on all key financial metrics

The Group has continued to strengthen its financial performance and operating margins.

Summary

- Operating profit up 48% to £37.5 million and EBITDA up 35% to £51.8 million.
- ROCE increased by 52% to 19% driven by tight control and management of working capital.
- Strong free cash flow with significant headroom for investment.
- Strong balance sheet with a flexible capital structure.

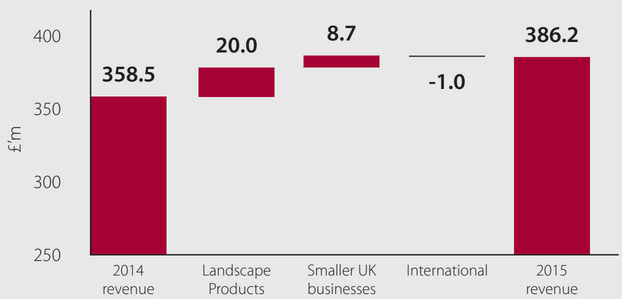
Jack Clarke
Finance Director

Trading summary

Revenue

Revenue for the year ended 31 December 2015 was £386.2 million (2014: £358.5 million), which represented an increase of 7.7 per cent. Revenue for the 6 months to 31 December 2015 was up 4.8 per cent compared with strong comparatives in the second half of 2014.

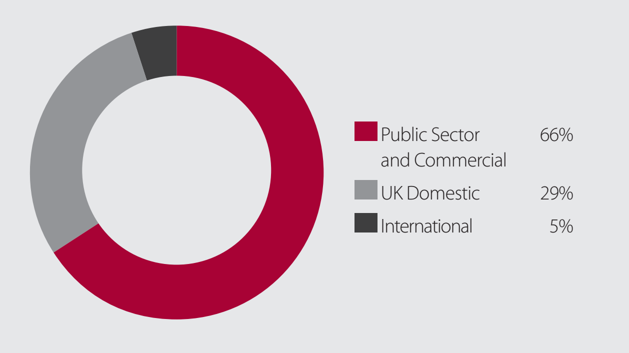
Revenue variance analysis 2014/2015

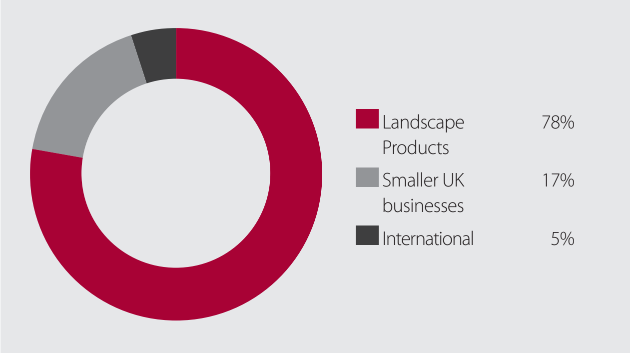


An analysis of revenue by end market is summarised in the table below:

Analysis of sales by end market	**2015 £'m**	2014 £'m	Change %
UK Domestic	**111.9**	108.0	3.6
Public Sector and Commercial	**255.3**	230.5	10.8
International	**19.0**	20.0	(5.0)
	386.2	358.5	7.7
	%	%	
UK Domestic	**28.8**	30.0	
Public Sector and Commercial	**66.2**	64.1	
International	**5.0**	5.9	

Driving growth revenue analysis





Public Sector and Commercial

In the Public Sector and Commercial end market, revenue increased by 10.8 per cent compared with 2014. Sales in the Public Sector and Commercial end market now represent approximately 66 per cent of Group sales.

Commercial order intake is strong and demand in Water Management, New Build Housing and Rail continues to increase. The Group is outperforming the market in these areas and Marshalls' strategy is to enhance its position as a market leading landscape products specialist. The Group's technical and sales teams focus on market areas where future demand is greatest and promote the full range of integrated products and sustainable solutions to customers, architects and contractors.

The Group has established the new "Marshalls' Stone Standard". The Marshalls' Stone Standard mark gives our customers full assurance that all Marshalls natural stone not only meets but exceeds the base technical levels outlined in B57533.

Domestic

In the Domestic end market, revenue increased by 3.6 per cent. Sales to the UK Domestic end market now represent approximately 29 per cent of Group sales.

Installer order books at the end of February 2016 were 10.5 weeks (February 2015: 9.0 weeks). The Group continues to receive good feedback from its customers and installers for the consistency and quality of service. The GfK's Consumer Confidence Index has remained at historically high levels during the last year.

The Group's strategy continues to be to drive more sales through quality installers. The Marshalls Register of approved domestic installers is unique and has grown to over 1,800 teams. The objective is to continually develop the Marshalls brand, to improve the product mix and to ensure a consistently high standard of quality, excellent customer service and marketing support and good geographical coverage.

International

Sales to International markets increased by 2.6 per cent in local currency. However, the impact of exchange rate movements is that, once translated into Sterling, sales reduced to £19.0 million (2014: £20.0 million). Given trading conditions, which continue to be difficult in Europe, this represents a good performance and, pleasingly, the Belgium business has moved into profit. The International business is now approximately 5 per cent of Group sales.

The continuing focus is to develop the Group's International operations and ensure these are aligned with market opportunities. Sales through the Group's US subsidiary have increased by 50 per cent, in local currency, and a new sales office has recently been opened in Dubai to facilitate further sales growth in the Middle East.

Operating profit

Trading results	**2015 £'m**	2014 £'m	Change %
EBITDA	**51.8**	38.5	34.6
Depreciation / amortisation	**(14.3)**	(13.2)	
Operating profit	**37.5**	25.3	48.0

Operating profit was £37.5 million (2014: £25.3 million), which represents an increase of 48.0 per cent. EBITDA increased by 34.6 per cent to £51.8 million (2014: £38.5 million) and basic EPS was 14.32 pence (2014: 10.13 pence), an increase of 41.4 per cent.

ROCE increased by 52.0 per cent to 19.0 per cent (2014: 12.5 per cent) driven by tight control of capital management. Capital employed has decreased by 3.9 per cent to £204.2 million (2014: £212.4 million), despite the significant increase in profit.

Financial Review *continued*

Trading summary *continued*

First half / second half phasing

The following table summarises the relative performance of the second half of 2015 compared with that for the 6 months ended 30 June 2015. The table illustrates the continued improvement in the second half of 2015, with revenue increasing by 4.8 per cent and operating profit increasing by 59.3 per cent compared with the comparable 6 month period in 2014.

First half / second half phasing	2015 £'m	2014 £'m	Change %	2015 %	2014 %
Revenue					
HY1	**199.1**	180.0	10.6	**52**	50
HY2	**187.1**	178.5	4.8	**48**	50
Total	**386.2**	358.5	7.7		
Operating profit					
HY1	**22.0**	15.6	41.0	**59**	62
HY2	**15.5**	9.7	59.3	**41**	38
Total	**37.5**	25.3	48.0		

Profit margins

The Group continued to strengthen its market position and operating margin increased by 37 per cent to 9.7 per cent (2014: 7.1 per cent on a reported basis).

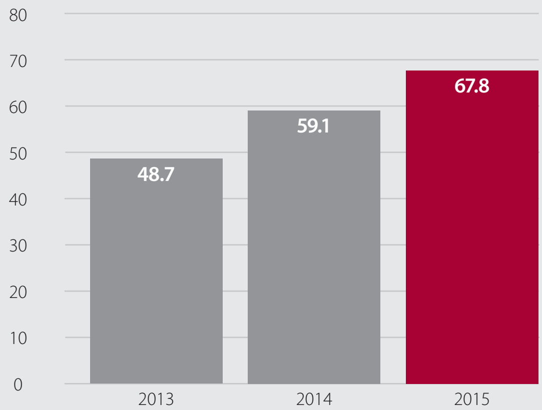
Margin analysis	Revenue £'m	Reported operating profit £'m	Margin impact %
2014 – reported	358.5	25.3	7.1
Restructuring costs – Belgium	—	2.0	0.5
2014 – underlying	358.5	27.3	7.6
Landscape Products	20.0	5.5	1.0
Smaller UK businesses	8.7	2.4	0.4
International	(1.0)	2.3	0.7
2015	**386.2**	**37.5**	**9.7**

The table illustrates the impact of operational gearing in the UK businesses as a result of volume growth, which has been ahead of CPA forecasts.

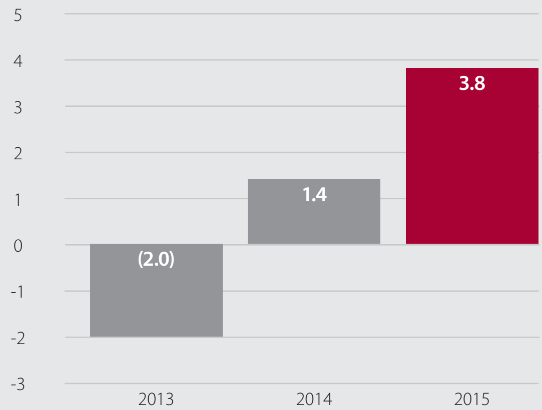
The Group's Landscape Products business is a reportable segment servicing both the UK Public Sector and Commercial and UK Domestic end markets. Revenue increased by £20.0 million and operating profit grew by £5.5 million in the Landscape Products business.

There has been continued performance improvement in the smaller UK businesses during 2015 and they have collectively delivered revenue growth of £8.7 million and profit growth of £2.4 million, as illustrated in the charts below. The smaller UK businesses include Street Furniture, Mineral Products and Stone Cladding.

Smaller UK businesses
Revenue (£'m)



Smaller UK businesses
Operating profit (£'m)



The smaller UK businesses are a positive driver for growth.

Increasing output

We are increasing output to meet growing demand and to deliver benefits from operational gearing.

Operational developments

The Group has excellent relationships with its customers. This is delivering additional sales and good progress is being made with the many growth initiatives. An important development is the opening of Marshalls' new "Design Space" office in Central London. This new facility will showcase the Group's brand leading capabilities and will provide customers with access to samples and technical advice. The office's location in Clerkenwell is ideal for the engagement of architectural practices.

The Group's industry leading standards remained high in 2015 giving a combined customer service measure of 98 per cent (2014: 97 per cent). Marshalls continues to receive good feedback from its customers and installers for the consistency and quality of its products and service.

A priority during 2015 was to advance the creation of a wide-ranging digital strategy, which encompasses digital trading, digital marketing and digital business. The strategy includes the creation of web and mobile applications which track and support the customer through their purchasing journey. Examples include merchant web stores and the Marshalls Register member mobile app. In digital marketing, web and mobile applications have been developed to promote the sale of products and data mining techniques have been introduced to identify market trends.

Capital investment in property, plant and equipment in 2015 totalled £15.5 million (2014: £12.0 million). This compares with depreciation and amortisation of £14.4 million (2014: £13.2 million). The Group will continue to invest selectively in innovation to deliver new products and improvement projects that reinforce its market leading position.

Research and development expenditure in the year ended 31 December 2015 amounted to £3.1 million (2014: £2.7 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 increased by 14 per cent, in the core Landscape Products business, during 2015, and represents 10 per cent of its sales.

Net financial expenses

Net finance costs were £2.2 million (2014: £2.9 million) and interest was covered 17.2 times (2014: 8.8 times) reflecting the benefits from the refinancing exercise undertaken during the year. External charges totalled £1.8 million (2014: £2.8 million) and, including scheme administration costs, there was an IAS 19 notional interest charge of £0.4 million (2014: £0.1 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.

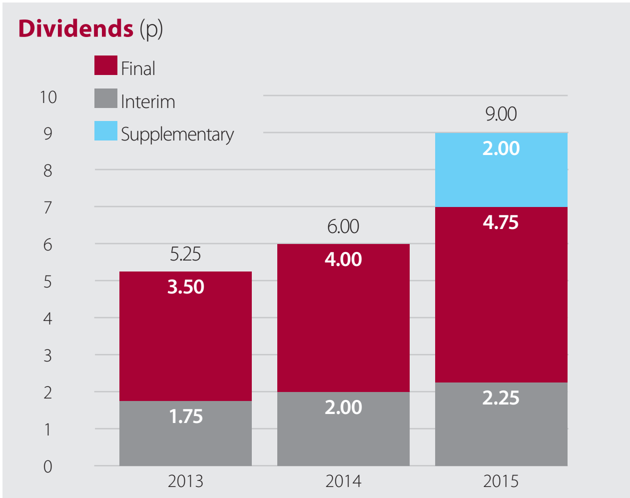
Taxation

The effective tax rate was 20.9 per cent (2014: 18.7 per cent) with the prior period benefiting from a credit arising on the finalisation of prior year tax computations. The tax charge includes a deferred tax credit of £0.9 million arising due to substantively enacted reductions in the rate of corporation tax to 18 per cent by April 2020. The Group has paid £7.0 million (2014: £4.0 million) of corporation tax during the year. Deferred tax of £0.8 million (2014: £0.6 million credit) in relation to the actuarial loss (2014: gain) arising on the Group's defined benefit pension scheme in the year has been taken to the Consolidated Statement of Comprehensive Income.

Marshalls was awarded the Fair Tax Mark in 2015. The Fair Tax Mark recognises social responsibility and transparency in a company's tax affairs and we are the first business in our sector to receive this accreditation. The Group's tax arrangements have long been closely aligned with the Fair Tax Mark's objectives and this is now supported by additional tax disclosures and a stated tax policy.

Dividends

The recommended supplementary dividend of 2.00 pence per share is discretionary and non-recurring and recognises that the business has sufficient capital both to finance increased investment opportunities and to maintain a flexible capital structure. When added to the normal full-year dividend of 7.00 pence, this gives a total dividend for the year of 9.00 pence. The incremental cash outflow in 2016 in relation to the supplementary dividend will be approximately £3.9 million.



Financial Review *continued*

Trading summary *continued*

Balance sheet

Group Balance Sheet	2015 £'m	2014 £'m
Non-current assets	**192.8**	196.0
Current assets	**137.0**	132.6
Current liabilities	**(87.1)**	(81.0)
Non-current liabilities	**(50.0)**	(65.7)
Net assets	**192.7**	181.9
Net debt	**(11.5)**	(30.5)
Net debt: EBITDA	**0.2**	0.8

Net assets at 31 December 2015 were £192.7 million (2014: £181.9 million). The Group has a strong balance sheet with a broad range of medium-term bank facilities available to fund its investment initiatives to generate further growth. During the year the Group undertook a thorough review of its capital structure to ensure it provides a sound basis for future investment decisions.

The Group's UK inventory reduction programme has contributed to a reduction of over £2 million despite significantly increased levels of activity. The Group continues to prioritise inventory management and improving stock turnover. We believe debtor days remain industry leading due to continued close control of credit management procedures. The Group maintains credit insurance which provides excellent intelligence to minimise the number and value of bad debts and ultimately provides compensation if bad debts are incurred.

The balance sheet value of the Group's defined benefit pension scheme was a surplus of £3.4 million (2014: £3.4 million surplus). The amount has been determined by the Scheme actuary using assumptions that are considered to be prudent and in line with current market levels. The fair value of the Scheme assets at 31 December 2015 was £302.2 million (2014: £312.5 million) and the present value of the Scheme liabilities was £298.8 million (2014: £309.1 million). These changes have resulted in an actuarial loss, net of deferred taxation, of £3.9 million (2014: £3.2 million surplus) and this has been recorded in the Consolidated Statement of Comprehensive Income. The Company has agreed with the Trustee that no cash contributions are now payable under the existing funding and recovery plan, resulting in a future cash saving of £4.6 million per annum.

Analysis of net debt

Analysis of net debt	2015 £'m	2014 £'m
Cash and cash equivalents	**25.0**	20.3
Bank loans	**(36.1)**	(50.3)
Finance leases	**(0.4)**	(0.5)
	(11.5)	(30.5)

At 31 December 2015 net debt was £11.5 million (2014: £30.5 million) resulting in gearing of 6.0 per cent (2014: 16.8 per cent). This reduction is due to the operating cash flow impact of strong trading, together with a continuation of the close control of inventory and the effective management of working capital introduced in the year. As a result, working capital management has successfully released cash in the year of £8.5 million. Cash management continues to be a high priority.

Borrowing facilities

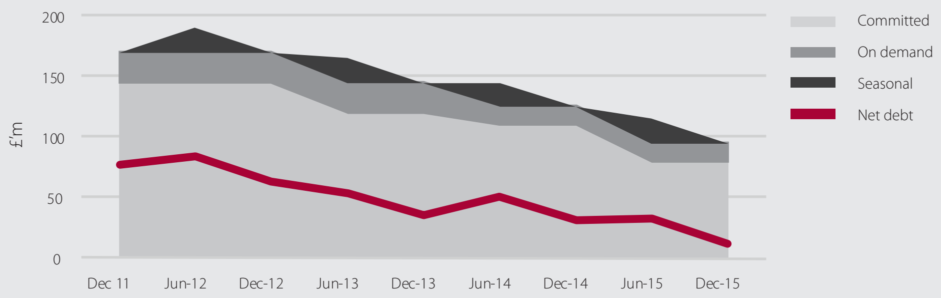
The Group continues its policy of having a range of committed bank facilities in place with a positive spread of medium-term maturities that now extends to 2020. In July 2015, following the continued steady reduction in net debt, the Group undertook a full review of its bank facilities in order to align them with current strategy and to ensure headroom against available facilities remains at appropriate levels. Committed facility lines were reduced by £30 million which has reduced finance costs and, at the same time, the Group renewed its short-term working capital facilities with RBS. The Group's committed facilities are all revolving credit facilities with interest charged at variable rate based on LIBOR.

The total bank borrowing facilities at 31 December 2015 amounted to £95.0 million (2014: £125.0 million), of which £58.9 million (2014: £74.7 million) remained unutilised. In addition, the Group has a seasonal working capital facility of £20.0 million, which is available between 1 February and 31 August each year. The Group has significant headroom in its available facilities.

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		
Q3 2020	20	20
Q3 2019	20	40
Q3 2018	20	60
Q3 2017	20	80
On-demand facilities		
Available all year	15	95
Seasonal (February to August inclusive)	20	115

Bank facilities



Cash generation

Group cash flow	2015 £'m	2014 £'m
Net cash from operating activities	**49.7**	29.1
Net cash from investing activities	**(13.8)**	(8.9)
Net cash from financing activities	**(16.9)**	(15.1)
Movement in net debt in the period	**19.0**	5.1
Net debt at beginning of period	**(30.5)**	(35.6)
Net debt at end of period	**(11.5)**	(30.5)

The Group is significantly cash generative. In the year ended 31 December 2015 net cash flow from operating activities was £49.7 million (2014: £29.1 million).

Analysis of cash utilisation	2015 £'m	2014 £'m
Net cash from operating activities	**49.7**	29.1
Capital expenditure	**(14.9)**	(12.0)
Proceeds from sale of property assets	**1.1**	3.1
Payments to acquire own shares	**(4.6)**	(4.3)
Cash returned to shareholders	**(12.3)**	(10.8)
Movement in net debt	**19.0**	5.1

Cash outflow on capital expenditure in the year was £14.9 million (2014: £12.0 million). The majority of this expenditure was invested in the replacement of existing assets, in business improvements and in new process technology. Proceeds from the sale of targeted property assets contributed £1.1 million (2014: £3.1 million). Dividend payments in the year were £12.3 million (2014: £10.8 million).

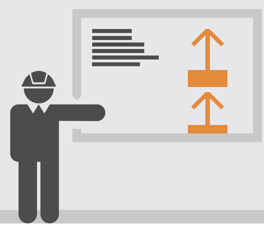
Jack Clarke
Finance Director

The Strategic Report section on pages 1 to 33 of this Annual Report has been reviewed and approved by the Board of Directors on 11 March 2016.

Martyn Coffey
Chief Executive

Effective control framework

We maintain an **efficient and flexible capital structure** and operate **tight control over financial procedures**.



Board of Directors and Secretary

Andrew Allner

Chairman

R N

Term of office
Joined the Board in July 2003; appointed as Chairman in May 2010. Last re-elected in May 2015. Also chairs the Nomination Committee.

Length of service
12 years 6 months (4 years 6 months as Chairman)

Independent
Yes (on appointment as Chairman)

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

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

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

Martyn Coffey

Chief Executive

Term of office
Joined the Company and appointed to the Board in September 2013. Last re-elected in May 2015.

Length of service
2 years 3 months

Independent
No

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

External appointments
Officer of the Construction Products Association.

Director of the Mineral Products Association.

Non-Executive Director of Eurocell plc.

Jack Clarke

Finance Director

Term of office
Joined the Company and appointed to the Board on 1 October 2014. Formally elected in May 2015.

Length of service
1 year 3 months

Independent
No

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.

Alan Coppin

Non-Executive Director and Senior Independent Director

A R N

Term of office
Appointed in May 2010. Last re-elected in May 2015.

Length of service
5 years 7 months

Independent
Yes

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

External appointments
Crown Representative in the Cabinet Office (Efficiency and Reform Group), Trustee and Chairman of the Campaign Board for the RAF Museums, Patron of the Windsor Leadership Trust, Chairman of Sports Ground Safety Authority and Independent Panel Member of Public Appointments for the Department of Media, Culture and Sport.

Mark Edwards
Non-Executive Director

A R N

Term of office
Appointed in May 2010. Last re-elected in May 2015.

Length of service
5 years 7 months

Independent
Yes

Skills and experience
Chartered Accountant with a strong operating background gained in the USA, Europe and Asia. CEO of AIM Altitude, a leading supplier of cabin interiors for Boeing and Airbus aircraft on the world's leading airlines.

Formerly CEO of the Baxi Group and Vice President of the Construction Products Association.

External appointments
Chief Executive of AIM Aviation Holdings (which trades as AIM Altitude) and its group of companies, and Chairman of Atlas Fine Wines.

Tim Pile
Non-Executive Director

A R N

Term of office
Appointed in October 2010. Last re-elected in May 2015.

Length of service
5 years 3 months

Independent
Yes

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

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

Janet Ashdown
Non-Executive Director

A R N

Term of office
Appointed in March 2015. Formally elected in May 2015.

Length of service
9 months

Independent
Yes

Skills and experience
Non-Executive Director of SIG Plc and a member of its Audit, Remuneration, Nomination and Governance Committees. Janet is also a Non-Executive Director of Coventry Building Society and a member of its Remuneration and Risk Committees and was also recently appointed to the Board of the Nuclear Decommissioning Authority.

Janet's Executive career 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 and is currently Chair of Trustees of the charity "Hope in Tottenham".

External appointments
Non-Executive Director of SIG Plc, Coventry Building Society and the Nuclear Decommissioning Authority.

Cathy Baxandall
Group Company Secretary

Term of office
Appointed in July 2008.

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

External appointments
Charity Trustee and Board member of Ilkley Literature Festival, the Open College of the Arts and the Bedales Grants Trust Fund.

Key

A Member of the Audit Committee
R Member of the Remuneration Committee
N Member of the Nomination Committee
C Chairman of Committee

Corporate Governance Statement

44 Statement of Directors' Responsibilities **pages 44 – 45**

46 Remuneration Committee Report **pages 46 – 60**

61 Audit Committee Report **pages 61 – 63**

Chairman's introduction

Dear Shareholder,

This Corporate Governance Statement, together with the Reports of the Audit, Nomination and Remuneration Committees on pages 36 to 65, explains how Marshalls' governance framework works and how we apply the principles of business integrity, high ethical values and professionalism in all our activities. As a Board, we recognise that we are accountable to shareholders for good corporate governance, and we seek to promote consistently high standards of governance throughout the Group which are recognised and understood by all.

Good governance involves good and effective leadership, robust systems and processes that are regularly tested, and a good understanding of risk and risk appetite. The Board seeks to add value through constructive dialogue and challenge, engagement with shareholders and other stakeholders, and with a strong focus on the strategic agenda. This year, the Board has set aside additional time for risk review and for consideration of our key strategic objectives, which I have commented on in my Chairman's Statement. Group strategy is outlined on pages 16 and 17 of the Strategic Report.

The Board recognises the benefits of diversity in its composition, and, having recruited Janet Ashdown in 2015, we have a clear succession plan aimed at refreshing and extending the range of skills, experience and diversity on the Board in future years. Our progress in this area is highlighted in the Nomination Committee Report.

This Corporate Governance Statement, which is part of the Directors' Report, has been prepared in accordance with the principles of the UK Corporate Governance Code published in September 2014 (the "Code"), which the Board fully supports. We consider that the Company has complied with the relevant provisions of the Code throughout the year in all material respects. I can also confirm that in the opinion of the Directors these Annual Financial Statements present a fair, balanced and understandable assessment of the Group's position and prospects and provide the information necessary for shareholders to assess the Group's position and performance, business model and strategy. The respective responsibilities of the Directors and the Auditor in connection with the Financial Statements are explained in the Statement of Directors' Responsibilities and the Auditor's Report on pages 44 to 45 and 66 to 69 respectively.

Andrew Allner
Chairman

Role of the Board

The Board currently comprises an Independent Non-Executive Chairman, 4 Non-Executive Directors and 2 Executive Directors who are equally responsible for the proper stewardship and leadership of the Company. Their biographical details are on pages 34 and 35.

Among the written Schedule of Matters Reserved for the Board, which is reviewed annually, are:

— approving and monitoring progress of strategy, business plans and budgets;

— approving any changes to capital, constitution or corporate structure;

— approving the annual and half-yearly accounts, and the approval and monitoring of the internal financial control system, risk management, health and safety and anti-bribery policies and procedures;

— Board appointments and succession planning, and setting terms of reference for Board Committees;

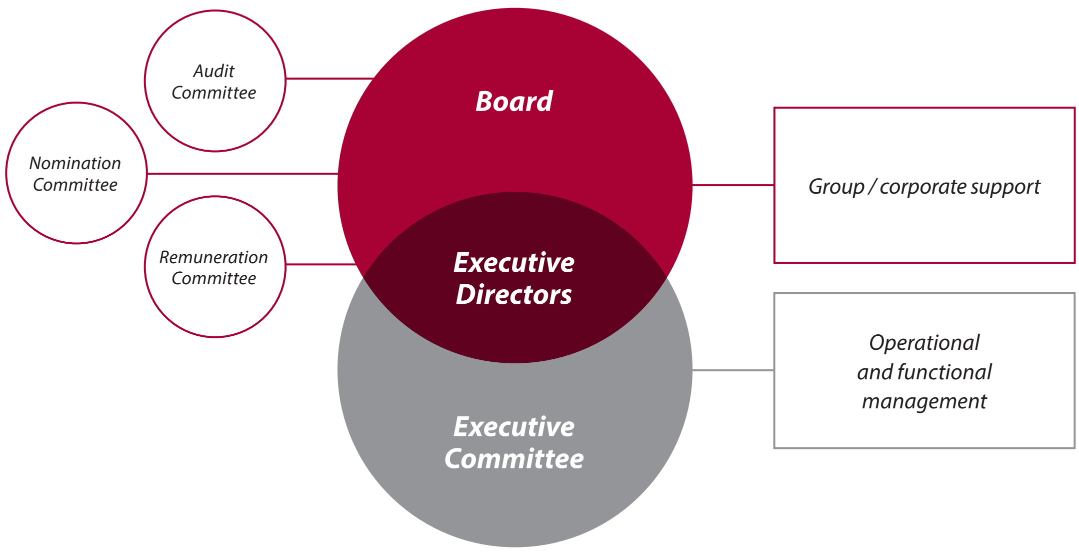
— approving transactions of significant value or major strategic importance; and

— remuneration matters, including major changes to pension schemes, the introduction of share and incentive schemes, and the general framework of remuneration.

The Board has delegated specific responsibilities to the Audit, Remuneration and Nomination Committees. The Audit Committee Report on pages 61 to 63 provides details of how the Board applies the Code in relation to financial reporting, risk management and internal controls. The Nomination Committee Report on pages 42 and 43 explains how Board and senior management succession planning and Board development are being addressed. The Remuneration Report on pages 46 to 60 gives details of Executive Directors' remuneration and policy. Other Board Committees are established periodically for particular purposes. For example, during the year, Board Committees were established to approve the grant of Sharesave options, dividend payments and the 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 all decisions are made by the most appropriate people in a timely manner. Management teams report to members of the Executive Committee, which currently consists of 7 senior managers, including the 2 Executive Directors. The Board receives regular updates from this Committee in relation to business issues and developments. These policies and procedures collectively enable the Board to make informed decisions on a range of key issues including strategy and risk management. The interaction between these bodies is illustrated in the chart below.

Interaction between Board and management bodies



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

Committee Terms of Reference
www.marshalls.co.uk

Corporate Governance Statement *continued*

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

There is a clear division of responsibilities between the Chairman and Chief Executive, each of whom has annually reviewed written Terms of Reference. The Chairman leads the Board and sets its agenda, ensuring that adequate time is available for discussion of all agenda items, in particular strategic issues, making sure all Directors, particularly the Non-Executive Directors, are able to contribute, and maintaining a constructive relationship between the Executive and the Non-Executive Directors. The Chief Executive has responsibility for all operational matters which include the implementation of strategy and policies approved by the Board.

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

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

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

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

Conflicts of interest

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

Board composition, commitment and election of Directors

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

On appointment, Board members, in particular the Chairman and the Non-Executive Directors, disclose their other commitments and agree to allocate sufficient time to the Company to discharge their duties effectively and ensure that these other commitments do not affect their contribution. The current Board commitments of the Chairman and of the remaining members of the Board are shown on pages 34 and 35. Any conflicts of interest are dealt with in accordance with the Board conflicts procedures.

The Company's Articles of Association contain powers of removal, appointment, election and re-election of Directors and provide that at least one third of the Board must retire at each Annual General Meeting and each Director must retire by rotation every 3 years. In practice, the Company requires all Non-Executive Directors and Executive Directors to stand for re-election at each Annual General Meeting so, with the exception of Alan Coppin who is retiring, all will stand for re-election or election at the 2016 Annual General Meeting. Jack Clarke, who joined the Board in October 2014, and Janet Ashdown, who joined the Board in March 2015, were each elected at the Annual General Meeting in May 2015. The terms of appointment of the current Directors are reported on page 60 and the Directors' biographical details on pages 34 and 35 show their length of service on the Board.

Board induction, development and support

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

Training is also built in to the annual Board programme, which seeks to incorporate a range of in-depth topics of particular relevance to the business. Directors are expected to attend external courses and seminars as appropriate to maintain and develop their Board competencies. During 2015, there were Board briefings relating to health and safety and changes to financial reporting and corporate governance. The Board also received senior management presentations in relation to innovation, manufacturing operations and the Group's marketing strategy, and there were individual meetings between Non-Executive Directors and senior managers relating to areas of particular interest. Training needs are identified through the Board evaluation process and through individual reviews between the Directors and the Chairman.

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

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

Indemnities and insurance

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

Board evaluation

The Company carries out a full evaluation of Board performance and that of its 3 principal Committees annually. The 2015 evaluation was conducted in a similar way to previous years, using a detailed questionnaire, and one-to-one confidential discussions between each of the Directors and the Company Secretary. The questionnaire referenced current guidance on Board effectiveness published by the Financial Reporting Council and other external investor bodies, such as the ABI, the Investment Association and NAPF, as well as the Code. It was designed to stimulate thought and discussion rather than to deliver scores, and included questions about the effectiveness of Executive and Non-Executive Directors, and the performance of the Chairman. The Senior Independent Director separately reviewed the Chairman's performance with other Non-Executive Directors. The results of the evaluation were reviewed by the Chairman and the Company Secretary and discussed by the Board.

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

Corporate Governance Statement *continued*

Board evaluation *continued*

The Board also reviewed the priorities identified for 2015 from the previous 2014 evaluation process. These included deeper debate on strategic issues and the strategic objectives of the Group, increasing focus on dynamic risk reporting, increasing opportunities for Non-Executive Directors to meet senior management below Board level, recruiting a female Non-Executive Director and developing opportunities for contact between the Chairman and shareholders. Good progress against all of these priorities was made during the year.

The key themes emerging from the 2015 evaluation have been applied in developing specific Board objectives for 2016. They include:

— extending the strategy debate with an externally facilitated Board strategy day to focus on long-term vision;

— putting more structure around Board development and succession planning, including personal development plans for each Director and individual appraisal and development work at Board and senior management level;

— developing risk reporting and best practice within the business on the management of risk;

— improving visibility of risk assessment at the early stages of project evaluation; and

— raising the profile of people related issues generally at Board level, and adding HR related KPIs to the regular Board reports.

The Board believes that the current evaluation process works extremely well. All Directors take the opportunity to respond fully and frankly to the questionnaire, which is thorough and robust, with a genuine desire to enhance overall Board performance, and the process contains sufficient objectivity through the confidentiality of individual responses to ensure that challenge is acknowledged and acted upon. The Board considered whether an external evaluation should be carried out in 2015, and concluded that in view of Board changes and the positive impact of the established evaluation process, an internally led review remained appropriate for 2015. However, recognising the potential benefit of a periodic external review, the Board plans to commission an external evaluation during 2016 using an external facilitator, who will be identified in next year's Annual Report.

Board meetings

There were 7 regular Board meetings scheduled during 2015, 4 meetings of the Audit and Remuneration Committees and 1 Nomination Committee meeting. Additional meetings were held during the year for other specific purposes. Non-Executive Directors also attended site visits.

The Chief Executive and the Finance Director are usually invited to attend Audit Committee meetings, although the Audit Committee also meets the auditor without any Executive Director being present. The Chief Executive is invited to attend Remuneration Committee meetings where appropriate. The Company Secretary is also Secretary to the Board Committees and attends meetings for this purpose.

Board attendance

	Board	Audit Committee	Remuneration Committee	Nomination Committee
Andrew Allner (Non-Executive)	7/7	–	4/4	1/1
Janet Ashdown	5/5	3/3	2/2	–
Jack Clarke	7/7	–	–	–
Martyn Coffey	7/7	–	–	–
Alan Coppin (Non-Executive)	7/7	4/4	4/4	1/1
Mark Edwards (Non-Executive)	7/7	4/4	4/4	1/1
Tim Pile (Non-Executive)	7/7	4/4	4/4	1/1

Janet Ashdown joined the Board in March 2015 and has attended all meetings held since the date of her appointment. In 2016 there are 7 Board, 4 Audit Committee, 4 Remuneration Committee and 1 Nomination Committee meetings scheduled, with 2 additional days set aside for strategy. Board members are expected to participate in site visits, and are invited to other events such as the Group's annual management conference.

Performance reporting and Board information

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

Risk management and internal control

The Board acknowledges its responsibility for determining the nature and extent of the significant risks it is willing to take in achieving its strategic objectives, and for the Group's system of internal control. The Board has carried out a review of the effectiveness of the Group's risk management and internal controls systems, including financial, operational and compliance controls. The Strategic Report comments in detail (pages 20 to 23) on the nature of the principal risks facing the Group, in particular those that would threaten our business model, future performance, solvency or liquidity and the measures in place to mitigate them. In conducting its review, the Board has included a robust assessment of these risks. The Audit Committee Report on pages 61 to 63 describes the internal control system and how it is managed and monitored. The Board acknowledges that such systems are designed to manage, rather than eliminate, the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material mis-statement or loss.

Relations with shareholders

The Board places great emphasis on good communications with 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, and also periodically arrange site visits for investors. Reports of these meetings and any shareholder communications during the year are provided to the Board. During 2015, 83 such meetings were held, at which at least 46 institutional shareholders were represented.

The Board also regularly receives copies of analysts' and brokers' briefings. The Chairman is available to meet major shareholders on request to discuss governance and strategy. The Senior Independent Director is also available to meet shareholders separately if requested. When appropriate, the Non-Executive Directors attend meetings or site visits with major shareholders and would be available to meet major shareholders if a meeting were requested.

There is a regular reporting and announcement schedule to ensure that matters of importance affecting the Group are communicated to investors, and the Annual and Half-yearly Reports, together with the Marshalls website, are substantial means of communication with all shareholders during the year.

Annual General Meeting

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

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

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

Andrew Allner
Chairman
11 March 2016

Nomination Committee Report

Andrew Allner
Chairman of the Nomination Committee

Chairman's introduction

I am pleased to report to shareholders on the main activities of the Committee and how it has performed its duties during 2015. I chair Nomination Committee meetings, but would not do so where the Committee was dealing with my own reappointment or replacement as Chairman.

Andrew Allner
Chairman of the Nomination Committee

"The Committee will be working with management on a high level review of senior management succession planning below Board level during 2016."

Nomination Committee members

- Andrew Allner – Chairman
- Alan Coppin
- Janet Ashdown
- Mark Edwards
- Tim Pile

Role and responsibilities

The role of the Nomination Committee includes:

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

The performance of the Committee was evaluated as part of the Board evaluation process in 2015, and the Committee Terms of Reference were also reviewed.

During the year the Nomination Committee held 1 scheduled meeting, and additional meetings and discussions in connection with succession planning and recruitment were held by telephone. Attendance at meetings is shown on page 40.

Recruitment and succession planning

The Committee remains committed to achieving diversity in its widest sense in the composition of the Board and senior management. The Nomination Committee's priorities during 2015 included the recruitment of a female Non-Executive Director, an objective initially identified in 2012 but deferred during the recruitment and appointment of Martyn Coffey in 2013 and Jack Clarke in 2014 as Chief Executive and Finance Director respectively.

In late 2014, the Committee recommenced its search, working with an external search consultant, Lygon. Lygon also provided services in relation to the recruitment of the Executive Directors in 2013 and 2014, but it has no connection with the Company other than the provision of the Board search services described in this report.

Suitable candidates were sought with Lygon's support, following which a detailed series of meetings and interviews between those candidates and members of the Committee took place, resulting in the appointment of Janet Ashdown to the Board on 25 March 2015. Janet's extensive experience in industry and her knowledge of the building materials sector are valuable additions to the Board, and she has, since appointment, received full induction training and made a number of site visits to familiarise herself with the business.

Non-Executive Directors are appointed for specific terms, subject to reappointment and the Company's Articles of Association and subject to the Companies Act provisions relating to the removal of a Director. During 2015, the Committee agreed a framework for succession planning with the current Non-Executive Directors designed to phase future recruitment so that the composition of the Board can be refreshed whilst ensuring continuity. Under this plan, Alan Coppin will retire from the Board following the 2016 Annual General Meeting and Janet Ashdown will take over from Alan Coppin as Senior Independent Director and Chair of the Remuneration Committee on his retirement.

The Committee will be working with management on a high level review of senior management succession planning below Board level during 2016, focusing on the development of internal talent and potential succession to the Board.

Reappointment of Directors

Each Non-Executive Director was, on joining, provided with a detailed description of his or her role and responsibilities, and received a detailed business induction. All Directors have an annual one-to-one development review meeting with the Chairman to appraise performance, set personal objectives and discuss any development and training needs to enable them to continue to add value to the Board. The Committee expects to develop this process during 2016 to include a 360-degree assessment of individual and collective performance with contributions from senior management and other business stakeholders.

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 Chairman provides an explanation to shareholders as to why the Director should be re-elected and confirming that a formal performance evaluation has taken place when the resolution to re-elect is circulated.

It is the Company's policy that Executive Directors can only hold 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 34 and 35.

There have been no changes to my own other commitments during the year, which are also listed on page 34.

Governance

The Committee has acted in accordance with the principles of the Code in developing and applying its succession plans and policies. The Committee's effectiveness, including the effective application of those principles, is assessed as part of the annual Board evaluation process. The evaluation concluded that the Committee had been successful in securing a good mix of skills and experience in the composition of the current Board. The 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.

Andrew Allner
Chairman
11 March 2016

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

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

Company law requires the Directors to prepare Group and Parent Company Financial Statements for each financial year. Under that law they are required to prepare the Group Financial Statements in accordance with IFRSs as adopted by the EU and 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 of the annual financial report

The Directors who held office at the date of approval of this Directors' Report and whose names and functions are listed on pages 34 and 35 confirm that, to the best of each of their knowledge:

- the Financial Statements prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit of the Company and the undertakings included in the consolidation taken as a whole; and
- the Strategic Report contained in this Annual Report includes a fair review of the development and performance of the business and the position of the Company and the Group taken as a whole, together with a description of the principal risks and uncertainties that they face.

The Directors consider the Annual Report and Financial Statements, taken as a whole, to be fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy.

Disclosure of information to the auditor

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

Going concern

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

Cautionary statement and Directors' liability

This Annual Report 2015 has been prepared for, and only for, the members of the Company, as a body, and no other persons. Neither the Company nor the Directors accept or assume any liability to any person to whom this Annual Report is shown or into whose hands it may come except to the extent that such liability arises and may not be excluded under English law. Accordingly, any liability to a person who has demonstrated reliance on any untrue or misleading statement or omission shall be determined in accordance with Section 90A of the Financial Services and Markets Act 2000.

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

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

Annual General Meeting

The Notice convening the Annual General Meeting to be held at The Cedar Court Hotel, Ainley Top, Huddersfield HD3 3RH at 11.00 am on Wednesday 18 May 2016, 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
11 March 2016

Remuneration Committee Report

Chairman's introduction

Our Remuneration Policy was approved at the Company's Annual General Meeting on 14 May 2014 and is intended to apply for 3 years. This report summarises the key features of the Policy applied in 2015. The full Policy can be found in the Company's 2013 Remuneration Report, accessible via the Investor Relations section of our website (www.marshalls.co.uk). This report has been approved by the Board and signed on its behalf.

Alan Coppin
Chairman of the Remuneration Committee

46 Remuneration Committee Report **pages 46 – 48**

49 At a Glance Summary **pages 49 – 52**

53 Annual Remuneration Report **pages 53 – 60**

Remuneration Policy
www.marshalls.co.uk/remuneration

Remuneration Committee members

- Alan Coppin – Chairman
- Andrew Allner
- Janet Ashdown
- Mark Edwards
- Tim Pile

I am pleased to report to you on the Remuneration Committee's activities and objectives during 2015.

Executive pay continues to be high on the agendas of shareholders and stakeholders alike. Understandably, shareholders want to ensure that the Executive team running the business is being remunerated on a basis consistent with their performance, the performance of the business, and the value that is delivered to shareholders. The Remuneration Committee recognises the importance of shareholder and stakeholder accountability, and I have personally endeavoured to ensure that this year's Remuneration Report is transparent and easy to read, and clearly shows how we have applied our policy in a way that is consistent with best practice without divulging sensitive information.

This report is divided into 3 sections: the Chairman's Annual Statement (this introduction); an "at a glance" summary of the key features of our Remuneration Policy and its application; and our Annual Remuneration Report, explaining how the Policy was implemented during 2015.

The Remuneration Policy was approved by shareholders in May 2014 with a strong majority of over 87 per cent of all votes cast. The Committee has applied the Policy consistently throughout the year and considers that it remains appropriate. Consequently, we do not propose to resubmit the Policy to a vote at our 2016 Annual General Meeting, although the key features of the Policy are incorporated into this report for ease of reference. The Annual Remuneration Report and this Annual Statement will be subject to an advisory vote of shareholders.

In particular, the Marshalls Management Incentive Plan ("MIP") was introduced in 2014 to replace both the previous annual deferred bonus plan and the Group's 2005 Long Term Incentive Plan ("2005 LTIP") as the vehicle for delivery of performance related variable incentives. The MIP was approved by a substantial majority of our shareholders and incorporates current "best practice" remuneration principles, including an additional 2-year holding period after vesting for share awards which vest after 3 years, and appropriate clawback and malus provisions both during and after the vesting period. More than 70 per cent of the Directors' maximum variable remuneration now takes the form of shares or share equivalents.

How we performed in 2015

Strategic objective	Measure	Expressed as	Outcome	Link to strategy
Maximise operational efficiencies and increase output to meet demand	Profit / cash	EPS / net debt	Operating profit: £37.5m (+48%); EPS: 14.32p (+41%); gearing: 6.0%	EPS and net debt key measure
Retain market leading position and grow profit	Profit	EPS	EPS: 14.32p (+41%)	EPS and net debt key measure
Strengthen the brand, develop trust and excellence	Customer service	Customer service index	98%	Adjustment mechanism
Grow sustainably, investing in our people and protecting their wellbeing	Health and safety	Health and safety accident reduction	43% reduction year on year	Adjustment mechanism

Our strategic objectives in 2015 were focused on growing the business organically, maximising our operational efficiencies to meet growing demand, and accelerating the pace of innovation in products and services to retain and develop our market leading position. The financial targets set at the beginning of 2015 for MIP awards required achievement of significant EPS growth and reduction of net debt as the proxies for measuring progress against these objectives. Our brand, market leadership and sustainability objectives were incorporated through the addition of non-financial criteria (customer service and health and safety improvement), with a discount factor of 20 per cent if they were not met.

At the time of grant, the targets set for maximum performance took account of the "best case" consensus expectations of our shareholders and incorporated significant stretch against these expectations and the Group's 2015 budget. I am delighted that the business made considerable progress during 2015, and performance against these objectives in 2015 was very strong, with EPS up by 41 per cent from 10.13 pence to 14.32 pence and net debt reducing from £30.5 million to £11.5 million. The health and safety and customer service targets were also fully achieved. Share price rose by 39 per cent from 234 pence to 325 pence during the year and the regular dividend increased by 17 per cent in line with our dividend policy.

This very positive performance in 2015 is reflected in the level of Element A and Element B awards earned under the MIP, at the maximum end of the designated range; it is also expected to result in the vesting of outstanding Performance Share awards granted in 2013 under the 2005 LTIP.

Details of Directors' awards earned in 2015 and the performance measures used are shown in the Annual Remuneration Report.

Salary increases for 2016

When recruiting new Directors, it is our policy to offer an initial package that is lower than the median or target group with scope for increase once the Director is established in the role. In line with Policy, the Committee set the package for Jack Clarke at a level that was lower than the median and that of the previous Finance Director when he became Finance Director in 2014. Now that Jack Clarke has completed a full year with the business as Finance Director, the Committee has conducted a detailed review and benchmarking of his package against a comparator group, the result of which indicated that an upward adjustment of more than inflation / general pay within the Group would be appropriate to bring it closer to overall target positioning for the role, as envisaged under the Policy. An upward adjustment of 16.75 per cent in aggregate for the Finance Director was approved with effect from 1 January 2016. The salary of the Chief Executive and the fees of the Chairman and other Non-Executive Directors were increased with effect from 1 January 2016 by the same inflation based percentage as applied generally to salaries for the wider workforce.

Main activities of the Committee

During 2015 the Committee met 4 times, and there were additional discussions and meetings with shareholders and with external remuneration consultants PricewaterhouseCoopers LLP ("PwC"). The Chief Executive and the Company Secretary attend Committee meetings where appropriate. Attendance at meetings is shown on page 40.

Meetings	Matters discussed
February – March 2015	Review of continued appropriateness of Remuneration Policy. Measure achievement of incentive targets for 2014 and approve incentive scheme payments. Determination of 2015 MIP performance targets and individual awards for 2015. Review 2014 Remuneration Committee Report. Approve proposed Sharesave Scheme and Bonus Share Plan (providing bonus shares for those in annual bonus schemes other than the MIP) to be submitted to 2015 AGM.
July 2015	Review and amend Board expenses policy.
September – October 2015	Approval of option grants under Sharesave scheme. Consult external advisers on remuneration framework, including benchmarking (Executive Directors and Non-Executive Directors); receive report on pay and benefit conditions elsewhere in the business. Review changes to law and regulatory guidance on remuneration. Review termination obligations arising under service contracts.
December 2015	Approval of proposed pay and benefits for Executive Directors and Chairman in 2016. Board review of Non-Executive Directors' fees (other than Chairman's). Review and update Committee Terms of Reference. Evaluate Committee performance.

Remuneration Committee Report *continued*

Supporting wider share ownership

The Committee is supportive of the Company's employee engagement agenda, including encouraging wider share ownership within the business. During 2015, the life of the Company's existing Share Purchase Plan (the "SIP"), under which all employees may purchase shares out of pre-tax salary, was extended for a further 10 years with shareholder approval. Shareholder approval was also granted at the 2015 AGM for the introduction of an all-employee Sharesave ("SAYE") scheme. The SAYE scheme was launched in September 2015 with an allocation of 1 million shares offered to participants at a 20 per cent discount to market value, and was very well received, with approximately 46 per cent of our employees across all sites taking up the invitation to save, with an average aggregate monthly saving of £107,000.

Although eligible to participate, Executive Directors and those senior managers who could receive shares through participation in other bonus schemes chose not to join the SAYE scheme to allow the maximum number of allocated shares to be available to the wider workforce.

Shareholders also approved a Bonus Share Plan, under which those in operational bonus schemes other than the MIP (mainly sales force and managerial staff) will receive an element of bonus in the form of shares. Awards of shares under the Bonus Share Plan will be made following announcement of the 2015 results based on performance in 2015. Executive Directors and other MIP participants do not participate in the Bonus Share Plan.

Statement of shareholder voting

The table below shows the May 2015 Annual General Meeting voting results on the resolutions relating to remuneration.

		For and discretion	For and discretion as a percentage of votes cast	Against	Against as a percentage of votes cast	Withheld
Resolution 12 (Remuneration Report)	Votes	138,048,276	99.44	773,621	0.56	6,428,326
Resolution 13 (Bonus Share Plan)	Votes	144,287,439	99.71	415,793	0.29	537,375
Resolution 14 (SAYE Plan)	Votes	144,650,936	99.61	558,207	0.39	41,080
Resolution 15 (extension of SIP)	Votes	144,839,289	99.75	364,668	0.25	46,266

The Committee believes the percentage of votes in favour of the Remuneration Report and the wider share plan initiatives shows that shareholders remain very supportive of the Group's remuneration arrangements.

Remuneration disclosure

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

Looking to the future

As a Committee, our focus is to create and develop a remuneration structure that supports the business strategy of the Company as well as the interests of our shareholders. This is my last Chairman's introduction, and I would like to thank our shareholders for their continued support, as Janet Ashdown will take over as Chair of the Remuneration Committee after the 2016 Annual General Meeting. Janet and I have worked closely together to ensure an effective handover, and both Janet and I will be available at the Company's Annual General Meeting on 18 May 2016 to answer any questions on our Policy, its application and this Remuneration Report.

Alan Coppin
Chairman of the Remuneration Committee
11 March 2016

At a Glance Summary

In this section we set out our remuneration principles, the key elements of our Remuneration Policy and how the Policy will be implemented in 2016. We have also highlighted performance and remuneration outcomes for 2015, reported in full in the Annual Remuneration Report.

The Company's Remuneration Policy has been designed with the following aims:

— to ensure that incentives and targets support the delivery of, and are fully aligned with, our key strategic objectives;

— to avoid complexity within the incentive structure while retaining flexibility to address changing market conditions;

— to ensure that a significant proportion of variable pay is awarded in shares or share equivalents; and

— to continue to meet regulatory and best practice guidelines on remuneration.

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

A summary of the relevant elements of the Policy table is set out below.

Remuneration policy summary

Element	Policy summary description	Opportunity / maximum
Fixed remuneration		
Base salary	An Executive Director's basic salary is considered by the Committee on appointment and reviewed annually or when an individual changes position or takes on additional responsibility. In reviewing base salary, the Committee considers remuneration practices within the Group as a whole and, where relevant, objective research on companies within the Company's peer groups. Other factors taken into account include: — the individual performance and experience of the Executive Director; — the general performance of the Company; and — the economic environment. Salary is paid in 12 equal monthly instalments during the year.	The Remuneration Committee policy in relation to salary is: — up to the median salary on appointment depending on the experience and background of the new Executive Director; — on promotion, up to the median salary for the new role, otherwise pay increases will not exceed the higher of inflation and / or pay rises generally for Group employees; and — individuals who are recruited or promoted to the Board may have their salaries set below the targeted policy level until they become established in their role. In such cases subsequent increases in salary may be higher than the average until the target positioning is achieved.
Benefits	Benefits for Executive Directors are a fully expensed company car, annual medical and private medical insurance (including spouse and dependent children up to age 24), and death-in-service insurance. Executive Directors may be entitled to claim travel and accommodation expenses subject to agreed limits on appointment. The Company may carry permanent health insurance cover in respect of up to 100 per cent of an Executive Director's salary. Although not a benefit to Executive Directors, this insurance offers comfort to Executive Directors in the event of long-term ill health.	The maximum value available is the cost of the benefits.
Pension / salary supplement in lieu of pension	Executive Directors are entitled to membership of the defined contribution section of the Marshalls plc Pension Scheme. The Company contributes at an agreed percentage of basic salary. Executive Directors may take a pensions allowance in place of the Company's contribution to the Scheme. Pension allowances are excluded for the purposes of calculating any other element of remuneration based on a percentage of salary.	20 per cent of base salary.

At a Glance Summary *continued*

Remuneration policy summary *continued*

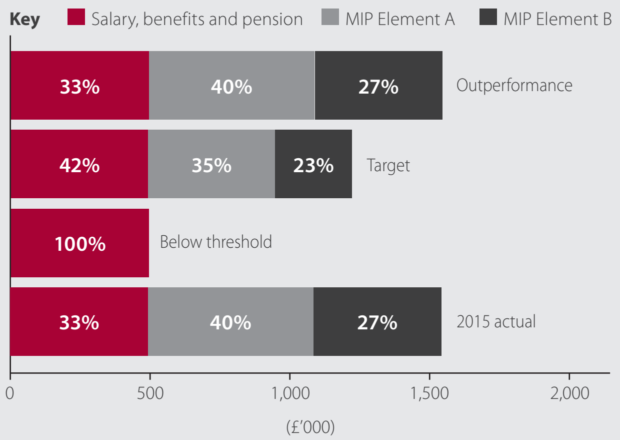
Element	Policy summary description	Opportunity / maximum
Variable performance related remuneration		
The Marshalls Incentive Plan ("MIP") **Element A**	Annual target set by reference to strategic and operational objectives set by Remuneration Committee. If conditions met, 50 per cent of earned award is paid as cash and 50 per cent deferred as shares into individual plan account. 50 per cent of accrued plan account balance paid out annually for 3 years, provided forfeiture threshold exceeded each year, with the final balance paid at the end of the fourth year. Awards subject to continued employment at end of the period. The forfeiture thresholds, if not achieved, result in the loss of up to 50 per cent of unpaid awards. Malus and clawback provisions also apply.	150 per cent of salary.
MIP Element B	Annual target set by reference to strategic and operational objectives set by Remuneration Committee. Awards are made annually in the form of nil-cost options or conditional shares, and are subject to continued employment and a financial underpin for 3 years. Awards become exercisable or unconditional after 3 years but, once vested, may not be sold for a further 2 years. Participants build up a shareholding over 5 years. There is a financial underpin which, if not achieved over 3 years, results in the loss of up to 50 per cent of unvested awards. Malus and clawback provisions also apply.	100 per cent of salary.
Shareholding requirement	Executive Directors are required to retain 50 per cent of the net number of shares earned under the Company's incentive arrangements until the shareholding requirement is satisfied. A new Executive Director may build up the minimum requirement within the first 5 years from the year of joining. Failure to meet the shareholding requirement within 5 years of appointment will result in a reduction in the future levels of award under the Company's incentive plans. The minimum shareholding requirement is 200 per cent of salary for the CEO and 100 per cent for other Executive Directors.	
Non-Executive Directors' fees	The Chairman's fee is set by the Committee. Fees are reviewed annually and periodically benchmarked against equivalent roles in the same comparator groups as are used for Executive Directors. Non-Executive Directors do not receive any bonus, do not participate in awards under the Company's share plans, and are not eligible to join the Company's pension scheme. Non-Executive Directors are reimbursed for travel and accommodation costs in connection with the performance of their duties.	The Company's policy in relation to fees is: — up to median level fees on appointment depending on the experience and background of the new Non-Executive Director; — increases during a term of office will not normally exceed the lower of inflation or the general rise for employees; and — fees may be adjusted to recognise significant change in responsibility levels (for example, if the Company's ranking as a constituent of the FTSE All Share Index changes).

Implementation of policy during 2016 and any changes to Executive Director earnings for 2015

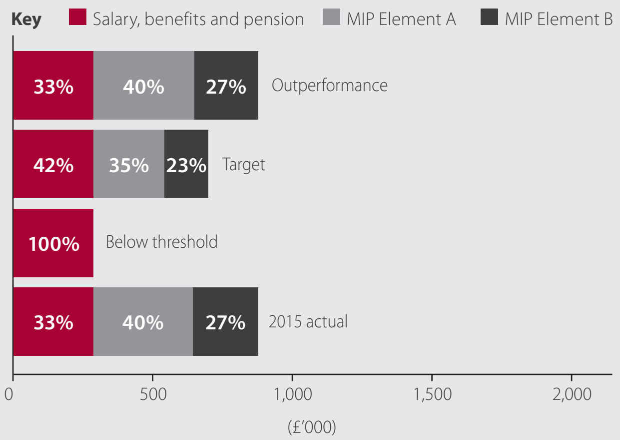
	Decision	Rationale
Element (fixed)		
Salary	2.5 per cent salary increase for Chief Executive. Chairman and Non-Executive Directors' fees also rose by 2.5 per cent, both with effect from January 2016. Finance Director salary increased by 16.75 per cent.	2016 increase for Chief Executive and Non-Executive Directors reflects 2.5 per cent inflation award for the workforce as a whole. Finance Director salary was below median; the increase brings the overall package closer to target positioning against median.
Benefits	No overall change in range of benefits. Martyn Coffey receives travel and accommodation expenses within a fixed 3-year allowance. Jack Clarke also received travel and accommodation expenses and relocation assistance.	The current range and level of benefits remains appropriate.
Pension	Neither Director participates in the Company scheme: both receive their pension contribution entitlement in the form of a salary supplement.	Principle of employer pension contributions remains valid – no change needed.
Element (variable)		
2005 LTIP	Historic long-term incentive scheme: awards outstanding from 2013 and 2014. No further awards - replaced by Element B of the MIP.	Element B of MIP delivers awards in the form of shares based on achievement of targets set annually but with deferral and underpin condition over a period of up to 5 years.
MIP	Combines annual deferred bonus (Element A) and long-term shareholding (Element B). Details of 2015 awards are set out in the Annual Remuneration Report. 2016 financial targets will be EPS (75 per cent) and the ratio of operating cash flow ("OCF") to EBITDA (25 per cent).	EPS remains a good measure of performance against strategic objectives and for 2016 the ratio of OCF to EBITDA has been introduced as the secondary measure most closely aligned with strategic objectives. Customer service and health and safety targets also remain.

Executive Director earnings for 2015

Chief Executive



Finance Director



Notes

(a) The base salary, benefits and pension information is taken from the single total figure of remuneration table on page 53.

(b) Achievement of "target" financial conditions results in 70 per cent of the annual award under the MIP being earned.

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

(d) "Outperformance" represents the full 250 per cent of salary potential under the MIP.

(e) The 2015 actual excludes Martyn Coffey's 2013 LTIP award which may vest. This award has been included on page 52 in the Directors interests in shares table.

At a Glance Summary *continued*

Management Incentive Plan ("MIP")

The MIP incorporates:

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

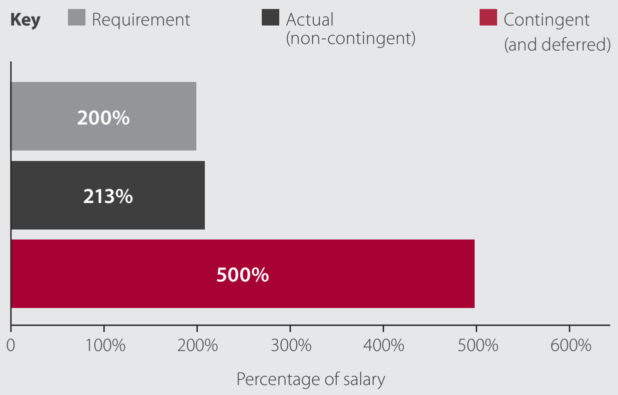
— Element B, an award normally in the form of a nil-cost option to acquire shares, carrying a maximum of 100 per cent of salary, conditional on continued employment for 3 years from grant and 50 per cent of which is also subject to a financial condition over the 3-year period. Element B shares must be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

Both awards depend on achievement of the performance conditions set by the Committee at the date of award. The table below shows the 2015 performance conditions and the extent to which they have been satisfied.

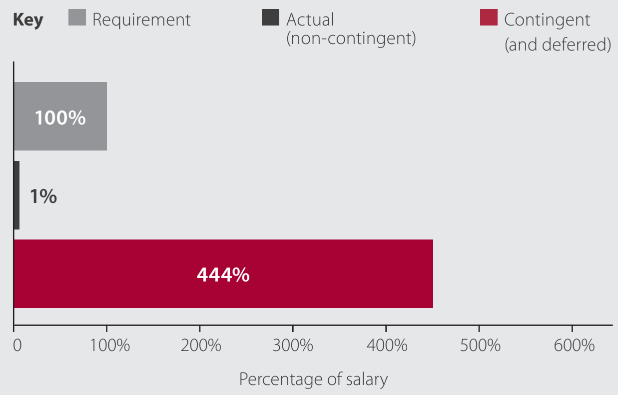
Measurement	Percentage of maximum contribution based on measurement	Minimum target	Maximum target	**2015 Actual**	Percentage of target achieved	Percentage of salary earned (Element A)	Percentage of salary earned (Element B)
EPS	75%	12.12p	14.14p	**14.32p**	100%	112.5	37.5
Net debt	25%	£27.5m	£22.5m	**£11.5m**	100%	75.0	25.0
Non-financial targets	20% deduction if not met	95% (customer service) 10% reduction (health and safety)	N/A	**All met**	100%	No deduction	No deduction

Directors' interests in shares

Chief Executive



Finance Director



Notes:
(a) The 2013 LTIP award for Martyn Coffey is assumed to have fully vested and is shown in Actual.

(b) The information in the above chart is taken from the table showing Directors' shareholdings on page 59.

Annual Remuneration Report

This report covers the reporting period from 1 January 2015 to 31 December 2015 and explains how the Remuneration Policy has been implemented. Comparative figures for the 2014 financial year have also been provided.

Single total figure of remuneration in 2015 – Executive Directors (audited)

	Fixed (£'000)						Performance related (£'000)							
							Annual bonus				Long-term incentives			
	Salary		Other benefits		Salary supplement in lieu of pension		MIP Element A		MIP Element B		LTIP/MIP		Total	
	2015	2014	**2015**	2014	**2015**	2014	**2015**	2014	**2015**	2014	**2015**	2014	**2015**	2014
Martyn Coffey	**412**	400	**23**	21	**82**	75	**525**	298	**206**	199	**816**	108	**2,064**	1,101
Jack Clarke	**237**	58	**11**	2	**47**	11	**209**	43	**119**	114	**–**	–	**623**	228
Total	**649**	458	**34**	23	**129**	86	**734**	341	**325**	313	**816**	108	**2,687**	1,329
		Note a	Note b		Note c		Note d				Notes e and f			

Notes:

(a) Jack Clarke joined the Group and was appointed to the Board on 1 October 2014. The 2014 column includes his remuneration for the period between 1 October and 31 December 2014.

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

(c) 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.

(d) The Annual bonus column shows 50 per cent of the total bonus contribution earned under the MIP Element A in respect of 2015 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 2015 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 2015 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.

(e) 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 based on performance in 2015.

(f) The LTIP column includes the 2013 Performance Share Award under the 2005 LTIP made to Martyn Coffey on joining in 2013. Vesting of this LTIP award was, exceptionally, dependent on achieving a minimum share price target over a predetermined period of 30 days following the announcement of the 2015 results and on continued employment. As at the latest practicable date for approving this report, the performance condition was not yet capable of measurement. However, as permitted under the Regulations, where the performance targets are substantially (but not fully) completed by the end of the relevant financial year, an expected value may be shown. The average mid-market price of the Company's shares for the 30-day period ending on 31 December 2015 was 324 pence. This is above the share price target of 250 pence required for maximum vesting and, accordingly, the LTIP column for 2015 shows Martyn Coffey's 2013 LTIP Performance Share Award as vesting in full. The award has been valued in accordance with the Regulations as the number of shares assumed to be vesting multiplied by the average share price over the last quarter of 2015 (335 pence). The outcome of the 30-day measurement period and any vesting will be the subject of a separate announcement, and if Martyn Coffey's 2013 LTIP Performance Share Award has not vested in full, an explanatory note will be included in the 2016 Annual Report on Remuneration and the single figure for 2015 will be restated.

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.

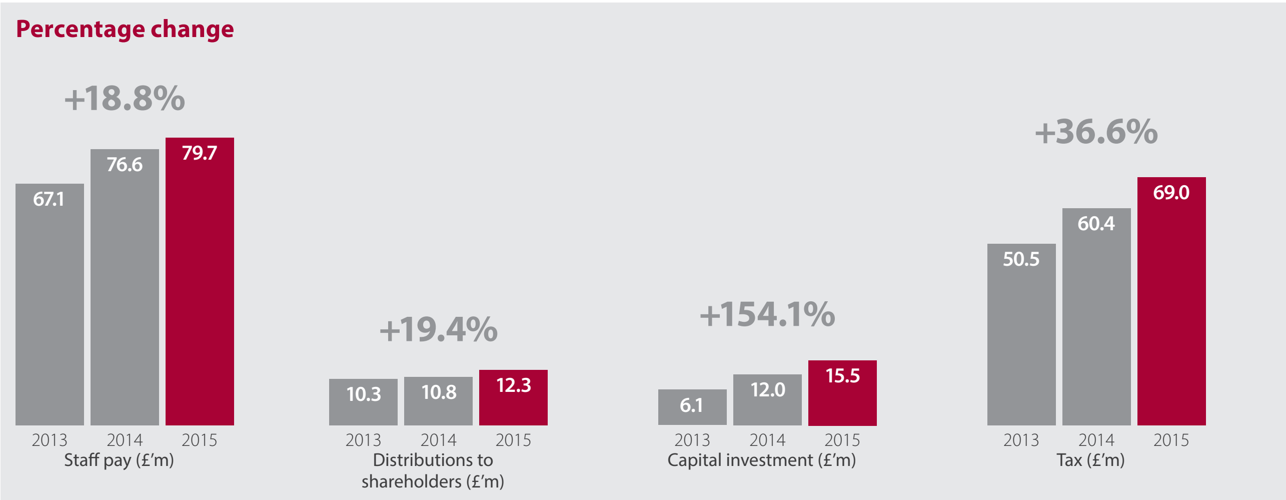
The 4 elements represent the most significant outgoings for the Company during the financial year. In addition to staff pay and shareholder distributions, capital investment and taxation are shown for the following reasons:

— investment – the Company increased capital investment during 2015 as part of its stated plan to invest strategically 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

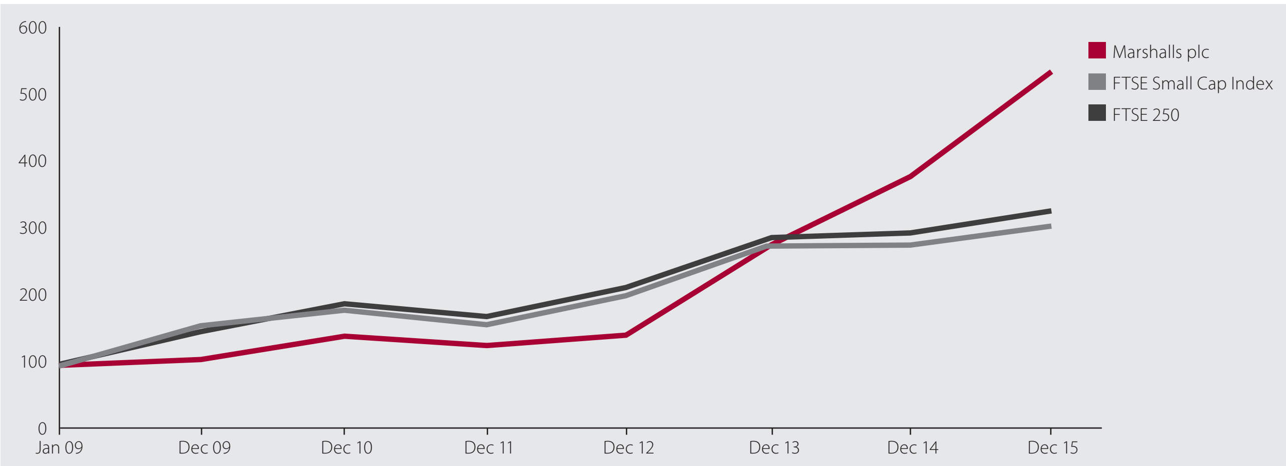
— tax – the Company is a UK taxpayer and feels that it is beneficial to demonstrate to all its stakeholders its total UK tax contribution. The most significant elements of the Company's UK tax contribution are VAT, employer's NI, corporation tax, fuel duty and aggregates levy. As profitability increases, corporation tax will also increase. In 2015 the Group was accredited with the Fair Tax Mark.

Annual Remuneration Report *continued*

Relative importance of spend on pay



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 2015 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 was 32 per cent better than the overall performance of the FTSE Small Cap Index and 30 per cent better than the FTSE 250 in 2015.

CEO pay in last 7 years

This table shows how pay for the CEO role has changed in the last 7 years.

Year	2009 (Note a) £'000	2010 £'000	2011 £'000	2012 £'000	2013 (Note b) £'000	2014 £'000	**2015 £'000**
Single figure remuneration	711	671	752	938	3,143	1,101	**2,064**
% of maximum annual bonus earned	46.4%	38.6%	78.1%	33.0%	63.6%	99.3%	**100%**
% of maximum LTIP awards vesting	0	0	0	0	63.0%	0	**100%**

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).

Percentage change in CEO's remuneration

The table below shows how the percentage change in the CEO's salary, benefits and bonus between 2014 and 2015 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 (Notes b and c) £'000		Percentage increase
	2015	2014	%	**2015**	2014	%	**2015**	2014	%
CEO pay	**412**	400	2.9	**23**	21	9.5	**731**	497	47.1
UK total pay	**79,279**	73,412	8.0	**290**	304	(4.6)	**1,875**	2,336	(19.7)
Number of employees	**2,236**	2,131	4.9	**346**	438	(21.0)	**382**	273	39.9
Average per employee	**35.5**	34.4	2.9	**0.8**	0.7	20.8	**4.9**	8.6	(42.6)

Notes:

(a) Martyn Coffey's salary was increased on 1 January 2015 by 2.9 per cent, the same percentage increase as given to the workforce as a whole.

(b) The bonus is the non-deferred amount earned for the relevant year taken from the total remuneration table.

(c) The comparative bonus figure for 2014 includes the exceptional acceleration of incentives for "good leavers" at senior management and Executive Director level. This explains the decrease in employee bonus in 2015.

Outcomes of incentive schemes in 2015 (audited)

This section explains how 2015 performance is reflected in rewards earned under the Company's incentive schemes.

Management Incentive Plan ("MIP")

The MIP incorporates:

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

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

Both awards depend on achievement of the performance conditions set by the Committee at the date of award. The table below shows the 2015 performance conditions and the extent to which they have been satisfied.

Measurement	Percentage of maximum contribution based on measurement	Minimum target	Maximum target	**2015 Actual**	Percentage of target achieved	Percentage of salary earned (Element A)	Percentage of salary earned (Element B)
EPS	75%	12.12p	14.14p	**14.32p**	100%	112.5	37.5
Net debt	25%	£27.5m	£22.5m	**£11.5m**	100%	75.0	25.0
Non-financial targets	20% deduction if not met	95% (customer service) 10% reduction (health and safety)	N/A	**All met**	100%	No deduction	No deduction

Performance conditions were set at the beginning of 2015 and the Committee took account of both internal budgets and external factors such as the market consensus of investors for the full year 2015. During the year, cash flow from sales improved significantly and pre-tax profit grew by 57 per cent. This performance meant that the stretching EPS and net debt targets set at the beginning of the year were achieved in full, resulting in a 100 per cent achievement against target. The share price improved by 39 per cent during the year (31 December 2014: 234 pence; 31 December 2015: 325 pence), which means the underlying value of share awards increased.

EPS

EPS relates to our strategic objective to grow profits. The Group's profit before tax increased by 57 per cent from £22.4 million to £35.3 million. EPS improved by 41 per cent from 10.13 pence in 2014 to 14.32 pence in 2015. EPS is measured using International Financial Reporting Standards ("IFRSs") based on the audited results of the Group and subject to the discretion of the Committee with regard to one-off items.

Net debt

Net debt is relevant for measurement of cash flow and overall sustainability. The Group's net debt at 31 December 2015 of £11.5 million was better than the lower (better) end of the target range set by the Committee at the beginning of the year.

Additional performance conditions

Our customers are at the heart of our business model, and our measurement of customer service uses factors such as product availability, on-time delivery performance and administrative and delivery accuracy to assess performance. The Group's average customer service performance, assessed monthly, exceeded its minimum target of 95 per cent throughout 2015. The Group also continued its excellent performance against its stated objective of reducing days lost to accidents by 10 per cent year on year. The actual reduction in days lost to accidents year on year was 43 per cent. Had these 2 targets not been met, the overall level of MIP award would have reduced by 20 per cent; the achievement of these measures means that no reduction factor will apply.

Annual Remuneration Report *continued*

MIP awards 2015

Element A

Plan accounts	Martyn Coffey	Jack Clarke
Opening balance (number of shares) (Note a)	431,715	62,058
2015 contribution (% of salary earned)	150.0%	150.0%
Value	£617,400	£355,005
2015 element released (Note b)	£(524,557)	£(208,532)
Closing balance (deferred into shares)	£524,558	£208,531
Number of shares represented by closing balance (Note c)	161,900	64,361

Element B

	Martyn Coffey	Jack Clarke
Number of shares awarded	127,037	73,046
Percentage of salary	100.0%	100.0%
Value	£411,600	£236,670
EPS forfeiture threshold (Note d)	10.13p	10.13p

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 deferred proportion of the 2014 Element A award was converted into shares by reference to the mid-market average value for the 30-day period ending on 31 December 2014. 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 2015 and adding the value of dividends of 6.25 pence per share paid during 2015.

(b) 2015 is year 2 of the 5-year MIP. The earned Element A award for 2015 is added to the individual's plan account, and 50 per cent of the resulting balance 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 deferral is repeated in each subsequent year up to the final year, in which, 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 2015 (324 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.

2005 LTIP: 2013 Performance Share Awards

A proportion of Performance Share Awards granted in 2013 under the 2005 LTIP may vest following the announcement of the 2015 annual results. Vesting of the LTIP award granted to Martyn Coffey on joining in 2013 was, exceptionally, dependent on achieving a minimum share price target over a predetermined period of 30 days following the announcement of the 2015 results and on continued employment. As at the latest practicable date for approving this report, the performance condition was not yet capable of measurement but, as noted above, the expected outcome of this award has been included in the LTIP column of the single total remuneration table.

The expected outcome of the 2013 performance award against the targets is set out in the table below:

Share price target	% of award vesting	Actual*	Number of shares vesting
Below 200p	0%	324p	243,412 (100%)
Between 200p and 250p	Between 50% and 100% pro-rata on a straight line basis		

* The share price used to estimate the expected outcome of the 2013 award has been taken as the average share price in the 30 days ending 31 December 2015 (324 pence).

Jack Clarke, having joined in 2014, does not hold a 2013 Performance Share Award under the 2005 LTIP.

2013 LTIP awards made to other senior managers below Board level and to past Directors were made on the basis of EPS and OCF growth performance targets measured over the financial years ended 31 December 2013, 2014 and 2015. These targets were met in full, so these awards will vest in April 2016.

2005 LTIP awards: previous awards outstanding as at 31 December 2015

Executive Director	Number of Performance Shares awarded 2014	2014 target EPS (75%) and OCF (25%) growth	Actual 2014 awards	Potential level of vesting of 2014 award
Martyn Coffey	222,124	EPS growth (75% to 125%)	EPS growth = 154.8%	EPS 100%
Jack Clarke	115,676	OCF growth (5% to 15%)	OCF growth = 65.5%	OCF 100%

Notes:

(a) All estimates are measured as at 31 December 2015.

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 2015. The Chairman's fees are set by the Committee and the Chief Executive; other Non-Executive Directors' fees are set by the Board as a whole. The Non-Executive Directors also received travel and accommodation expenses associated with attendance at Board meetings, 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	
	2015	2014	**2015**	2014	**2015**	2014	**2015**	2014
Andrew Allner Chairman and Chairman of Nomination Committee	**137**	133	**–**	–	**1**	10	**138**	143
Alan Coppin Senior Independent Director, Chairman of Remuneration Committee and member of Audit and Nomination Committees	**44**	43	**6**	6	**1**	6	**51**	55
Janet Ashdown Member of Audit, Remuneration and Nomination Committees	**33**	–	**–**	–	**1**	–	**34**	–
Mark Edwards Chairman of Audit Committee and member of Remuneration and Nomination Committees	**43**	42	**6**	6	**1**	6	**50**	54
Tim Pile Member of Audit, Remuneration and Nomination Committees	**43**	42	**–**	–	**1**	6	**44**	48
Total	**300**	260	**12**	12	**5**	28	**317**	300

The fees were increased by 2.5 per cent from 1 January 2016 in line with other Group employees.

In 2014 the Non-Executive Directors received a fixed allowance for travel and accommodation associated with attendance at Board Meetings. The grossed-up taxable amount is included in the 2014 column. In 2015, the policy was changed so that Non-Executive Directors no longer received this allowance but instead reclaimed travel and expenses incurred in the performance of their duties.

Payments to past Directors

Ian Burrell retired from the Board on 1 October 2014 and his employment ceased on his agreed retirement date of 30 June 2015. The total amount paid to Ian Burrell in respect of the financial year 2015 is set out below.

Director	Salary £'000	Taxable benefits £'000	Pension allowance £'000	MIP Element A £'000	Total £'000	Date of leaving
Ian Burrell	123	4	37	189	353	30 June 2015

As a "good leaver" on retirement, the Committee made the following determinations in respect of Ian Burrell's incentive awards:

2005 LTIP

Performance Share awards where the vesting period had not yet expired were pro-rated for the period from the date of grant to the actual date of cessation of employment subject to the proportionate satisfaction of the performance conditions on the date of cessation. Ian Burrell received 244,991 Performance Shares in respect of his 2013 and 2014 awards, representing his pro-rated entitlement at the date of leaving. The remaining balance of 104,109 Performance Shares awarded in 2013 and 2014 lapsed.

2014 MIP

98,941 shares, being Ian Burrell's accrued MIP balance on his leaving date of 30 June 2015, vested following the leaving date. 8,295 of these shares are Element B shares awarded in respect of performance in 2014 and must be held for a further period of 2 years.

2015 MIP

Ian Burrell also received an award in respect of service during 2015 up to his leaving date under Element A of the MIP, shown above, which was paid in cash.

Payments for loss of office

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

Annual Remuneration Report *continued*

Statement of implementation of Remuneration Policy in the following financial year (2016)

Executive Directors

Salary

The Committee approved a 2.5 per cent salary increase for Executive Directors effective from 1 January 2016, in line with inflation and increases for UK employees generally, and an exceptional increase of 16.75 per cent for Jack Clarke, in line with policy, to reflect that he is now established in the role and his performance as Finance Director is for the full year 2015.

Director	**1 January 2016 £'000**	1 January 2015 £'000	Change %
Martyn Coffey	**422**	412	2.5
Jack Clarke	**276**	237	16.75

Benefits and pension

Benefits continue on the same basis as in 2015.

Variable pay / incentives

Executive Directors will be granted performance awards under the MIP conditional upon achieving certain performance conditions in 2016. The Committee has discretion under the Remuneration Policy to change the weightings of performance criteria to align with its priorities, including measures relating to performance on ESG issues. Our strategic priorities for 2016 are focused on improving profit margins, growing our business and developing our brand, while also remaining innovative and operating sustainably with the highest standards of health, safety and social responsibility. The Committee believes that EPS and the ratio of OCF to EBITDA are the most appropriate criteria for measuring achievement of our financial objectives and that the combination of financial and non-financial criteria avoids inadvertently motivating irresponsible behaviour. The weighting for the operation of 2016 awards under the MIP will be:

EPS	75%
OCF to EBITDA	25%

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

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

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

— health and safety incidence: the rate of accidents must not fall below the 2015 level achieved.

2015 was an exceptional year for health and safety performance, resulting in only 5.1 lost time accidents per 1 million hours worked, following the Group's success in achieving a year on year reduction of significantly more than 10 per cent for the previous 8 years. The target is therefore to remain below this ratio during 2016.

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

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 2016. It is the view of the Committee that the targets for the MIP are commercially sensitive as they are primarily related to budgeted future profit and debt levels in the Company and therefore their disclosure in advance is not in the interests of the Company or shareholders. The Committee will, however, provide full retrospective disclosure to enable shareholders to judge the level of award provided against the targets set.

Non-Executive Directors

The Board approved an increase in the fee by 2.5 per cent from 1 January 2016, in line with Executive Directors and employees. Non-Executive Directors reclaim business expenses incurred in the performance of their duties retrospectively against duly presented invoices.

Director	1 January 2016 £'000	1 January 2015 £'000	Percentage increase
Andrew Allner (Chairman)	**140.5**	137.1	2.5
Janet Ashdown	**43.8**	–	2.5
Alan Coppin (SID)	**51.7**	50.4	2.5
Mark Edwards	**50.6**	49.4	2.5
Tim Pile	**43.8**	42.8	2.5

Shareholdings of Directors (audited)

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

The minimum shareholding requirements for Executive Directors are as follows:

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

Directors' shareholdings and share interests

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

— the number of shares the Director holds unconditionally;

— the number of deferred and conditional shares held under the incentive schemes that will vest following the 2015 results; and

— the number of shares subject to unvested incentive awards.

	Shareholding requirement		Beneficially owned	Shares that may vest following 2015 results (Note b)	Deferred shares (Note c)	Deferred and contingent share interests (Note d)	Total interests in shares (including contingent interests)
Director	% of salary	Number of shares required (Note a)	Number of shares	Number of shares	Number of shares	Number of shares	Number of shares
Executive							
Martyn Coffey	200	253,292	26,558	243,412	124,846	508,869	903,685
Jack Clarke	100	72,822	371	–	71,786	251,824	323,981
Non-Executive							
Andrew Allner	–	–	41,329	–	–	–	41,329
Janet Ashdown	–	–	5,900	–	–	–	5,900
Alan Coppin	–	–	10,000	–	–	–	10,000
Mark Edwards	–	–	78,000	–	–	–	78,000
Tim Pile	–	–	44,740	–	–	–	44,740

Notes:

(a) The closing price on 31 December 2015 of 325 pence per share has been used to measure the number of shares required.

(b) The 2005 LTIP Performance Shares awarded to the CEO in 2013 shown in this table represent 100 per cent of the award; however, the 2013 award remains subject to outstanding performance conditions at the date of this report so the shares are contingent and may not vest or only a proportion may vest.

(c) This column includes the 50 per cent proportion of share interests awarded in 2014 and 2015 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.

(d) This column includes outstanding conditional interests under the 2005 LTIP in the form of Performance Shares awarded in 2014, and share interests awarded under the MIP (Element A deferred shares and Element B deferred shares) that remain subject to a financial performance conditions as well as to continued employment over the relevant deferral period. 50 per cent of Element A awards and 100 per cent of Element B awards shown in this column may be forfeited if the financial condition is not satisfied.

(e) Share interests under Element A and Element B of the MIP are calculated by reference to the mid-market average value for the 30-day period ended 31 December 2015 (324 pence).

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

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. Directors' service contracts do not contain liquidated damages clauses. There are no contractual arrangements that would guarantee a pension with limited or no abatement on severance or early retirement. There is no agreement between the Company and its Directors or employees providing for compensation for loss of office or employment that occurs because of a takeover bid.

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

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

The Committee and its advisers

Role of the Remuneration Committee

The Committee's responsibilities include:

— setting remuneration policy for Executive Directors;

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

— operating the Company's employee share incentive arrangements;

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

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

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

External advisers

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

PwC's fees are agreed by the Remuneration Committee according to the work performed. The terms of its engagement are available on request from the Company Secretary. PwC also provided advice to the Company during the year in relation to corporate tax and pension matters. The Committee is satisfied that the advice from PwC is independent based on the separation of the team advising the Committee from any other work undertaken by PwC and the fact that PwC is a signatory to the Remuneration Consultants' Group's Code of Conduct. PwC's work relating to Executive remuneration during 2015 included assistance in the preparation of the 2014 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 2015 was £15,000.

Audit Committee Report

Mark Edwards
Chairman of the Audit Committee

Chairman's introduction

Dear Shareholder,

I am pleased to report to you on the Audit Committee's activities and objectives during 2015. This report, which is part of the Directors' Report, explains how the Audit Committee has discharged its responsibilities during 2015, and reflects the recent changes to reporting under the Code. I hope you find it useful and informative.

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

KPMG LLP, who were appointed to carry out the internal audit in 2015, following their replacement as statutory auditor during the year, conducted 8 separate detailed reviews and reported to the Committee with recommendations, all of which have been implemented or will be implemented during 2016.

Key areas of focus during the year included the Group's cyber security policies and procedures and other processes and procedures relating to cyber risk and data protection generally.

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

Mark Edwards
Audit Committee Chairman

Audit Committee members

- Mark Edwards
- Janet Ashdown
- Alan Coppin
- Tim Pile

Role and responsibilities

The key responsibilities of the Committee are:

- to keep under review the Group's financial and other systems and controls and financial reporting procedures;
- to plan and scope the annual audit and half-yearly audit review, receive audit reports and review financial statements, taking account of accounting policies adopted and applicable reporting requirements;
- to review the Annual Report and Financial Statements and advise the Board on whether they give a fair, balanced and understandable explanation of the Company's business and performance over the relevant period;
- to conduct a detailed review of internal controls and the internal audit process and report findings at least twice yearly to the Board;
- to review and update the Company's Risk Register;
- to review external auditor independence and audit and non-audit fees and make recommendations regarding audit tender and the appointment and remuneration of the auditor; and
- to review the Anti-Bribery Code and procedures, the Serious Concerns Policy and other policies relevant to financial security, compliance and business ethics.

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

The Chairman of the Committee is a Chartered Accountant and the Board is satisfied he has recent and relevant financial experience as required by the Code. Other members also have relevant financial experience. Their attendance at meetings is shown on page 40.

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

The Committee's performance was evaluated during 2015 as part of the Board evaluation process described in the Corporate Governance section of this Annual Report (pages 36 to 41).

Committee Terms of Reference
www.marshalls.co.uk/documents

Audit Committee Report *continued*

Highlights of 2015

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

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 2015.

The areas for particular focus in 2015 are summarised below.

Inventory provisioning

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

The gross levels of finished goods inventory held and the provisions recorded against obsolescence were reviewed by the Committee. This review was undertaken in the context of current trading and the forecast for the next financial year. In addition, the external auditor presented its findings with regard to the key audit testing over inventory valuation. The Committee also reviewed the effectiveness of controls in relation to inventory counting procedures and the satisfactory adjustment of any stock differences. KPMG undertook a specific review of this area. The Committee concurred with management's assessment of the carrying value of Group inventories, and noted that there was considerable management focus on both the reduction in finished goods inventory and the general review of accounting controls within the management of inventory during 2015.

Revenue and rebate recognition

The Committee considered and critically reviewed the operating effectiveness of controls surrounding revenue recognition and management's assessment of the appropriate level of provisions to recognise for rebates due to customers.

In addition, the external auditor presented its findings with regard to the key audit testing in this area. The Committee is satisfied with the controls and procedures that support the recognition of rebates due to customers.

Authorisation controls

During the year the Group undertook an internal review of the delegation of powers to operational management and the appropriateness of authorisation limits across all functional areas. The Committee noted management's focus in this area and considered the conclusions of the review. The Committee is satisfied that robust controls are in place that cover delegation of authority procedures across the Group.

Other matters

Other matters considered by the Audit Committee included the risk management framework and cyber security controls.

External audit, auditor independence and objectivity

The Audit Committee has primary responsibility for making a recommendation to the Board on the appointment, reappointment and removal of the external auditor. It keeps under review the scope and results of the audit, its cost effectiveness and the independence and objectivity of the auditor. 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 to replace KPMG LLP as statutory auditor following a tender process and, consequently, the Company has complied with the Competition and Markets Authority's final order on mandatory tendering. The Company has no contractual commitment obliging it to select any particular audit firm.

The Committee has adopted policies to safeguard the independence of its external auditor. Any work awarded to the external auditor with a value of more than £5,000 in aggregate in any financial year, other than an audit, requires the specific approval of the Committee. Where the Committee perceives that the independence of the auditor could be compromised, the work will not be awarded to it. Details of amounts paid to the external auditor for audit and non-audit services in 2015 are analysed in Note 3 on page 86, with no amounts paid for non-audit work. The aggregate amount paid to other firms of accountants for non-audit services in the same period was £156,000 (2014: £195,000).

An annual review of external audit effectiveness is undertaken by the Committee.

Risk management

The Board is responsible for reviewing the effectiveness of the system of risk management and control, and for ensuring that it meets the necessary standards. They are also subject to a regular rolling programme of review, the results of which are periodically reported to the Board. The Group's Risk Committee, comprising the Executive Directors and members of senior management with Executive accountability for particular risk areas, meets 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 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. 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. During 2015, there was also a high level review of strategic risk by Non-Executive Directors, which was subsequently integrated into the overall Risk Register.

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

Internal controls and audit

The Committee monitors and reviews the effectiveness of internal controls on an ongoing basis. The process of reviewing and reporting on the internal control system is carried out by KPMG LLP in their capacity as internal auditor for the Group. The annual internal audit programme is now derived from 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. This process is overseen by the Finance Director. KPMG LLP are independent from the Company's external auditor and have no other connection with the Group. Their work includes regular site visits and internal audit assignments of a financial and systems nature, including checks against previously completed self-assessment questionnaires. The results are reported to the Audit Committee.

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

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

The Committee has reviewed the current process and has concluded that the utilisation of KPMG LLP as independent internal auditor is an efficient and effective means of managing the internal audit function. The Committee will be considering, with KPMG LLP, how this process can be developed further during 2016.

Whistleblowing and bribery

The Audit Committee monitors 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 Serious Concerns Policy was reviewed during the year and the Committee was satisfied that arrangements are in place for the proportionate and independent investigation of such matters and for appropriate follow-up action. There was 1 matter raised under this policy during 2015 relating to an allegation of bullying at one of the Group's operating sites, at which there were already steps in place to improve behaviours and employee relations at the time of the allegation. The allegation was investigated and action taken to address the issues identified, with the assistance of ACAS as an independent facilitator.

The Audit Committee also takes responsibility for reviewing the policies and procedures adopted by the Company to prevent bribery. The Company is committed to a zero-tolerance position with regard to bribery, made explicit through its Anti-Bribery Code and supporting guidance for its employees, agents and contractors on hospitality and gifts. The policy and procedures are published on the Company website and displayed on operating site noticeboards. Online training is available to all employees via the Group's internal learning zone to reinforce the Anti-Bribery Code and procedures, and classroom-based training sessions are also held throughout the year. To date, 485 employees in decision-making roles with potential exposure to bribery risk have completed the training. There is a maintained register of employee interests and a gifts and hospitality record. The internal audit review programme included a review of the adequacy of the Company's procedures in relation to the prevention of bribery, and recommendations from the internal audit process have been implemented in 2015, including the establishment of the Fraud Register.

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

Mark Edwards
Audit Committee Chairman
11 March 2016

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 34 and 35.

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 (2014: £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 20 to 23. 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 17 on pages 94 to 99.

Greenhouse gas emissions: The Group's CO_2 (greenhouse gas) emissions in 2015 are disclosed in the Strategic Report on pages 26 and 27.

Employees: The Company's policies in relation to disabled employees and employee involvement and communication are explained in the Strategic Report on pages 24 to 26.

Corporate governance: Details of how the Group complies with the UK Corporate Governance Code are set out on pages 36 to 41.

Post balance sheet events of importance since 31 December 2015: There have been no important events affecting the Group since the end of the financial year. Details of developments since the financial year ended 31 December 2015 are included in the Strategic Report on pages 1 to 33.

Research and development: Activity and likely future developments for the business are described in the Strategic Report on pages 1 to 33.

Dividends

The Board is recommending a final dividend of 4.75 pence (2014: 4.00 pence) per share which, together with the interim dividend of 2.25 pence (2014: 2.00 pence) per share, makes a combined dividend of 7.00 pence (2014: 6.00 pence) per share. The Board is also recommending payment of a supplementary dividend of 2.00 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 8 July 2016 to shareholders registered at the close of business on 3 June 2016. The ex-dividend date will be 2 June 2016.

The dividend paid in the year to 31 December 2015 and disclosed in the Consolidated Income Statement is 6.25 pence (2014: 5.50 pence) per share, being the previous year's final dividend of 4.00 pence (2014: 3.50 pence) per share and the interim dividend of 2.25 pence (2014: 2.00 pence) per share in respect of the year ended 31 December 2015 and these were paid on 3 July 2015 and 4 December 2015 respectively.

Share capital and authority to purchase shares

The Company's share capital at 1 January 2016 was 199,378,755 Ordinary Shares of 25 pence. There has been no change between 31 December 2015 and 11 March 2016. Details of the share capital are set out in Note 20 on page 108.

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 (the "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 2015 the EBT held 2,715,747 Ordinary Shares in the Company (2014: 3,181,327 shares) in respect of future incentive awards under the Company's employee share schemes. Details of outstanding awards are set out in Note 18 on pages 103 to 106. 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 2015 shareholders gave authority to the Directors to purchase up to 29,523,367 shares, representing approximately 14.99 per cent of the Company's issued share capital in the Company, in the market during the period expiring at the next Annual General Meeting at a price to be determined within certain limits. No Ordinary Shares in the Company were purchased during the year or between 31 December 2015 and 11 March 2016 under this authority, which will expire at the Annual General Meeting in May 2016. 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.

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 39 of the Corporate Governance section.

Directors' interests

Details of Directors' remuneration, interests in the share capital (or derivatives or other financial instruments relating to those shares) of the Company and of their share-based payment awards are contained in the Remuneration Committee Report on pages 46 to 60. No change in the interests of the Directors has been notified between 31 December 2015 and the date of this report.

Listing Rule requirements

The applicable requirements of Listing Rule 9.8.4R in respect of long-term incentive schemes (pages 103 to 106) and contracts of significance (page 65) are included in this Annual Report.

Substantial shareholdings

The Company has no controlling shareholder. As at 11 March 2016, the Company had been notified, in accordance with DTR Rule 5, of the following disclosable interests of 3 per cent or more in its voting rights:

	As at 11 March 2016 %	As at 31 December 2015 %
Majedie Asset Management	**8.91**	8.98
Standard Life Investments	**8.07**	6.79
BlackRock	**6.70**	5.11
JP Morgan Asset Management	**4.95**	4.28
Old Mutual Global Investors	**4.91**	4.64
Royal London Asset Management	**4.76**	4.73
Unicorn Asset Management	**3.79**	3.82
Henderson Global Investors	**3.68**	3.68
Montanaro Investment Managers	**3.67**	3.67
M&G Investment Management	**3.46**	3.46

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
11 March 2016

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

Opinion on Financial Statements of Marshalls plc

In our opinion:

- the Financial Statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2015 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.

The Financial Statements comprise the Consolidated Income Statement, the Consolidated and Parent Company Statements of Comprehensive Income, the Consolidated and Parent Company Balance Sheets, the Consolidated Cash Flow Statement, the Consolidated and Parent Company Statements of Changes in Equity, and the related Notes 1 to 40. 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 (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 101 *"Reduced Disclosure Framework"*.

Going concern and the Directors' assessment of the principal risks that would threaten the solvency or liquidity of the Group

As required by the Listing Rules we have reviewed the Directors' Statement regarding the appropriateness of the going concern basis of accounting contained within Note 1 to the Financial Statements and the Directors' Statement on the longer-term viability of the Group contained within the Strategic Report on page 23.

We have nothing material to add or draw attention to in relation to:

- the Directors' Confirmation on page 23 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;
- the disclosures on pages 20 to 23 that describe those risks and explain how they are being managed or mitigated;
- 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 ability to continue to do so over a period of at least 12 months from the date of approval of the Financial Statements; and
- the Director's Explanation on page 23 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 agreed with the Directors' adoption of the going concern basis of accounting and we did not identify any such material uncertainties. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's ability to continue as a going concern.

Independence

We are required to comply with the Financial Reporting Council's Ethical Standards for Auditors and we confirm that we are independent of the Group and we have fulfilled our other ethical responsibilities in accordance with those standards. We also confirm we have not provided any of the prohibited non-audit services referred to in those standards.

Our assessment of risks of material misstatement

The assessed risks of material misstatement described below are those that had the greatest effect on our audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team.

Risk	How the scope of our audit responded to the risk
Carrying value of inventories The Group is primarily involved in the manufacture and sale of landscape products and natural stone products, selling to both Public Sector and 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 therefore exists that inventories, particularly those which are aged, 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 (ie. provisioning levels); — whether inventories will need to be discounted below their cost price; and — the appropriateness of standard costs and the level of provisioning applied. The carrying value of the Group's finished goods inventory as disclosed in Note 12 is noted as a critical accounting estimate in Note 26 to the Financial Statements.	We have: — reviewed business processes surrounding the recording of inventory quantities and management's review for the valuation of the items; — tested the design, implementation and operating effectiveness of controls around the key accounting cycles relating to purchasing, inventory quantities and inventory provisioning across the Group's sites; — used analytical techniques to review sales of product lines by site to focus on areas of risk in the provisions for net realisable value; — selected a sample of inventory items and agreed key inputs in the valuation such as materials costs and expected sales prices, rebates and shipping costs to supporting documentation; — challenged the key assumptions concerning overhead absorption by assessing the appropriateness of costs included in the calculation; — tested the standard cost assessment and year-end adjustment to actual cost by performing walkthroughs of the costing exercise and verifying the actual costs of production for a representative sample of products; and — assessed the accuracy of prior year provisions for indications that current year provisions may be materially misstated.
Completeness of rebate expenses The Group enters into a number of commercial agreements with its customers which have varying terms and as such a risk exists that rebate agreements with customers are not correctly accounted for, potentially resulting in an overstatement of revenue and profit. This becomes increasingly pertinent as the Group's revenues increase, rebate expenses become larger, and new agreements are initiated. The Directors are responsible for making judgements surrounding the level of provisions to apply for rebate agreements. As described in Note 1 to the Financial Statements, revenue recognised represents the invoiced value of sales to customers less returns, allowances and value added tax. This is further noted as a critical accounting estimate in Note 26 to the Financial Statements.	We have: — reviewed business processes and tested the design and implementation of controls surrounding the rebate expense cycles; — reviewed a sample of rebate agreements for key customers to assess whether provisions are calculated in line with contractual terms; — performed procedures to assess the accuracy of the brought forward rebate accrual including verification to subsequent cash payments; — assessed post year-end transactions to consider the completeness of the closing accrual; and — selected a sample of sales transactions to agree to customer order and to receipt of cash to gain assurance over the completeness and existence of revenue and rebate expenses.

The description of risks above should be read in conjunction with the significant issues considered by the Audit Committee discussed on pages 61 to 63.

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.

Independent Auditor's Report *continued*

to the members of Marshalls plc only

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.

We determined materiality for the Group to be £1.75 million which is below 5 per cent of pre-tax profit, and below 1 per cent of equity. In 2014 the previous auditor set materiality at £1.3 million on the basis of 5.8 per cent of pre-tax profit.

We agreed with the Audit Committee that we would report to the Audit Committee all audit differences in excess of £35,000 (in 2014 the previous auditor reported on all amounts in excess of £65,000) 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 at the Group level. The Group and Parent Company audits are performed at the Group's head office in Elland, West Yorkshire. All subsidiaries of the Group except Marshalls NV, based in Belgium, are based in the UK at Elland. The Group audit team performed the audit of all UK components, which accounted for 96 per cent of Group revenue, 98 per cent of Group net assets and 98 per cent of Group profit before tax.

Marshalls NV accounted for the remaining revenue, net assets and profit before tax and was audited by Deloitte Antwerp under the supervision of the Group audit team to a component materiality of £500,000.

In our first year as the Group's statutory Auditor, the Group audit team followed a programme of planned visits that has been designed so that senior members of the audit team have visited all of the Group's key locations, including the Group's Belgian site and a number of UK manufacturing locations. In addition, the senior statutory Auditor has visited a number of manufacturing sites in the UK and been involved in the planning and reporting procedures for all of the Group's components. In future years we will continue to include the component audit partner and team in our team briefing, discuss their risk assessment, and review documentation of the findings from their work.

Opinion 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; and

— 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.

Matters on which we are required to report by exception

Adequacy of explanations received and accounting records

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

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

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

— the Parent Company Financial Statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

Directors' remuneration

Under the Companies Act 2006 we are also required to report if, in our opinion, certain disclosures of Directors' remuneration have not been made or the part of the Directors' Remuneration Report to be audited is not in agreement with the accounting records and returns. We have nothing to report arising from these matters.

Corporate Governance Statement

Under the Listing Rules we are also required to review part of the Corporate Governance Statement relating to the Company's compliance with certain provisions of the UK Corporate Governance Code. We have nothing to report arising from our review.

Our duty to read other information in the Annual Report

Under International Standards on Auditing (UK and Ireland), we are required to report to you if, in our opinion, information in the Annual Report is:

- materially inconsistent with the information in the Audited Financial Statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit; or
- otherwise misleading.

In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the Directors' statement that they consider the Annual Report is fair, balanced and understandable and whether the Annual Report appropriately discloses those matters that we communicated to the Audit Committee which we consider should have been disclosed. We confirm that we have not identified any such inconsistencies or misleading statements.

Respective responsibilities of Directors and Auditor

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. Our responsibility is to audit and express an opinion on the Financial Statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). We also comply with International Standard on Quality Control 1 (UK and Ireland). Our audit methodology and tools aim to ensure that our quality control procedures are effective, understood and applied. Our quality controls and systems include our dedicated professional standards review team and independent partner reviews.

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.

Scope of the audit of the Financial Statements

An audit involves obtaining evidence about the amounts and disclosures in the Financial Statements sufficient to give reasonable assurance that the Financial Statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and the Parent Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the Financial Statements. In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited Financial Statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Christopher Robertson (Senior statutory auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
Manchester, UK
11 March 2016

Consolidated Income Statement
for the year ended 31 December 2015

	Notes	2015 £'000	2014 £'000
Revenue	2	**386,204**	358,516
Net operating costs	3	**(348,752)**	(333,211)
Operating profit	2	**37,452**	25,305
Financial expenses	5	**(2,181)**	(2,889)
Financial income	5	**7**	5
Profit before tax	2	**35,278**	22,421
Income tax expense	6	**(7,387)**	(4,198)
Profit for the financial year		**27,891**	18,223
Profit for the year			
Attributable to:			
Equity shareholders of the Parent		**28,149**	19,857
Non-controlling interests		**(258)**	(1,634)
		27,891	18,223
Earnings per share			
Basic	7	**14.32p**	10.13p
Diluted	7	**14.10p**	9.89p
Dividend			
Pence per share	8	**6.25p**	5.50p
Dividends declared	8	**12,291**	10,791

All results relate to continuing operations.

Consolidated Statement of Comprehensive Income
for the year ended 31 December 2015

	2015 £'000	2014 £'000 (Restated)
Profit for the financial year	**27,891**	18,223
Other comprehensive (expense) / income		
Items that will not be reclassified to the Income Statement:		
Remeasurements of the net defined benefit liability	**(3,866)**	3,244
Deferred tax arising	**773**	(649)
Total items that will not be reclassified to the Income Statement	**(3,093)**	2,595
Items that are or may in the future be reclassified to the Income Statement:		
Effective portion of changes in fair value of cash flow hedges	**(940)**	(3,984)
Fair value of cash flow hedges transferred to the Income Statement	**1,984**	1,076
Deferred tax arising	**(209)**	582
Impact of the change in rate of deferred taxation	**(375)**	–
Exchange difference on retranslation of foreign currency net investment	**(980)**	(944)
Exchange movements associated with borrowings	**847**	869
Foreign currency translation differences – non-controlling interests	**(78)**	(186)
Total items that are or may be reclassified subsequently to the Income Statement	**249**	(2,587)
Other comprehensive (expense) / income for the year, net of income tax	**(2,844)**	8
Total comprehensive income for the year	**25,047**	18,231
Attributable to:		
Equity shareholders of the Parent	**25,383**	20,051
Non-controlling interests	**(336)**	(1,820)
	25,047	18,231

Consolidated Balance Sheet
at 31 December 2015

	Notes	2015 £'000	2014 £'000
Assets			
Non-current assets			
Property, plant and equipment	9	**147,489**	149,745
Intangible assets	10	**40,168**	40,581
Investment in associates	11	**–**	782
Trade and other receivables	13	**415**	–
Employee benefits	18	**3,427**	3,449
Deferred taxation assets	19	**1,316**	1,394
		192,815	195,951
Current assets			
Inventories	12	**65,254**	67,323
Trade and other receivables	13	**44,542**	44,950
Cash and cash equivalents	14	**24,990**	20,320
Assets classified as held for sale	9	**2,231**	–
		137,017	132,593
Total assets		**329,832**	328,544
Liabilities			
Current liabilities			
Trade and other payables	15	**79,607**	73,416
Corporation tax		**5,281**	4,276
Interest bearing loans and borrowings	16	**34**	85
Derivative financial instruments	17	**2,149**	3,192
		87,071	80,969
Non-current liabilities			
Interest bearing loans and borrowings	16	**36,418**	50,715
Deferred taxation liabilities	19	**13,625**	14,966
		50,043	65,681
Total liabilities		**137,114**	146,650
Net assets		**192,718**	181,894
Equity			
Capital and reserves attributable to equity shareholders of the Parent			
Called-up share capital	20	**49,845**	49,845
Share premium account		**22,695**	22,695
Own shares		**(5,529)**	(6,689)
Capital redemption reserve		**75,394**	75,394
Consolidation reserve		**(213,067)**	(213,067)
Hedging reserve		**(1,653)**	(2,488)
Retained earnings		**263,894**	254,729
Equity attributable to equity shareholders of the Parent		**191,579**	180,419
Non-controlling interests	21	**1,139**	1,475
Total equity		**192,718**	181,894

Approved at a Directors' meeting on 11 March 2016.

On behalf of the Board:

Martyn Coffey
Chief Executive

Jack Clarke
Finance Director

The Notes on pages 76 to 110 form part of these Consolidated Financial Statements.

Consolidated Cash Flow Statement
for the year ended 31 December 2015

	2015 £'000	2014 £'000
Cash flows from operating activities		
Profit for the financial year	**27,891**	18,223
Income tax expense	**7,387**	4,198
Profit before tax	**35,278**	22,421
Adjustments for:		
Depreciation	**13,054**	11,982
Amortisation	**1,322**	1,231
Associates	**582**	(118)
Gain on sale of property, plant and equipment	**(149)**	(360)
Equity settled share-based payments	**2,202**	2,496
Financial income and expenses (net)	**2,174**	2,884
Operating cash flow before changes in working capital and pension scheme contributions	**54,463**	40,536
Increase in trade and other receivables	**(443)**	(1,050)
Decrease in inventories	**1,706**	3,102
Increase / (decrease) in trade and other payables	**7,262**	(1,765)
Operational restructuring costs paid	**(175)**	(235)
Pension scheme contributions	**(4,350)**	(4,600)
Cash generated from operations	**58,463**	35,988
Financial expenses paid	**(1,775)**	(2,840)
Income tax paid	**(7,003)**	(4,031)
Net cash flow from operating activities	**49,685**	29,117
Cash flows from investing activities		
Proceeds from sale of property, plant and equipment	**933**	3,077
Financial income received	**7**	5
Net proceeds from disposal of associates	**200**	–
Acquisition of property, plant and equipment	**(14,016)**	(11,269)
Acquisition of intangible assets	**(909)**	(741)
Net cash flow from investing activities	**(13,785)**	(8,928)
Cash flows from financing activities		
Payments to acquire own shares	**(4,582)**	(4,266)
Net (decrease) / increase in other debt and finance leases	**(166)**	269
Decrease in borrowings	**(14,182)**	(2,690)
Equity dividends paid	**(12,291)**	(10,791)
Net cash flow from financing activities	**(31,221)**	(17,478)
Net increase in cash and cash equivalents	**4,679**	2,711
Cash and cash equivalents at beginning of the year	**20,320**	17,652
Effect of exchange rate fluctuations	**(9)**	(43)
Cash and cash equivalents at end of the year	**24,990**	20,320

Consolidated Statement of Changes in Equity
for the year ended 31 December 2015

	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 2015	**49,845**	**22,695**	**(6,689)**	**75,394**	**(213,067)**	**(2,488)**	**254,729**	**180,419**	**1,475**	**181,894**
Total comprehensive income / (expense) for the year										
Profit / (loss) for the financial year attributable to equity shareholders of the Parent	–	–	–	–	–	–	**28,149**	**28,149**	**(258)**	**27,891**
Other comprehensive income / (expense)										
Foreign currency translation differences	–	–	–	–	–	–	**(133)**	**(133)**	**(78)**	**(211)**
Effective portion of changes in fair value of cash flow hedges	–	–	–	–	–	**(940)**	–	**(940)**	–	**(940)**
Net change in fair value of cash flow hedges transferred to the Income Statement	–	–	–	–	–	**1,984**	–	**1,984**	–	**1,984**
Deferred tax arising	–	–	–	–	–	**(209)**	–	**(209)**	–	**(209)**
Defined benefit plan actuarial losses	–	–	–	–	–	–	**(3,866)**	**(3,866)**	–	**(3,866)**
Impact of change in rate of deferred tax	–	–	–	–	–	–	**(375)**	**(375)**	–	**(375)**
Deferred tax arising	–	–	–	–	–	–	**773**	**773**	–	**773**
Total other comprehensive income / (expense)	–	–	–	–	–	**835**	**(3,601)**	**(2,766)**	**(78)**	**(2,844)**
Total comprehensive income / (expense) for the year	–	–	–	–	–	**835**	**24,548**	**25,383**	**(336)**	**25,047**
Transactions with owners, recorded directly in equity										
Contributions by and distributions to owners										
Share-based payments	–	–	–	–	–	–	**2,202**	**2,202**	–	**2,202**
Deferred tax on share-based payments	–	–	–	–	–	–	**(5)**	**(5)**	–	**(5)**
Corporation tax on share-based payments	–	–	–	–	–	–	**445**	**445**	–	**445**
Impact of the change in rate of deferred tax on share-based payments	–	–	–	–	–	–	**8**	**8**	–	**8**
Dividends to equity shareholders	–	–	–	–	–	–	**(12,291)**	**(12,291)**	–	**(12,291)**
Purchase of own shares	–	–	**(4,582)**	–	–	–	–	**(4,582)**	–	**(4,582)**
Disposal of own shares	–	–	**5,742**	–	–	–	**(5,742)**	–	–	–
Total contributions by and distributions to owners	–	–	**1,160**	–	–	–	**(15,383)**	**(14,223)**	–	**(14,223)**
Total transactions with owners of the Company	–	–	**1,160**	–	–	**835**	**9,165**	**11,160**	**(336)**	**10,824**
At 31 December 2015	**49,845**	**22,695**	**(5,529)**	**75,394**	**(213,067)**	**(1,653)**	**263,894**	**191,579**	**1,139**	**192,718**

Consolidated Statement of Changes in Equity *continued*

for the year ended 31 December 2015 (restated)

	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 2014	49,845	22,695	(9,512)	75,394	(213,067)	(162)	246,944	172,137	3,295	175,432
Total comprehensive income / (expense) for the year										
Profit / (loss) for the financial year attributable to equity shareholders of the Parent	–	–	–	–	–	–	19,857	19,857	(1,634)	18,223
Other comprehensive income / (expense)										
Foreign currency translation differences	–	–	–	–	–	–	(75)	(75)	(186)	(261)
Effective portion of changes in fair value of cash flow hedges	–	–	–	–	–	(3,984)	–	(3,984)	–	(3,984)
Net change in fair value of cash flow hedges transferred to the Income Statement	–	–	–	–	–	1,076	–	1,076	–	1,076
Deferred tax arising	–	–	–	–	–	582	–	582	–	582
Defined benefit plan actuarial gains	–	–	–	–	–	–	3,244	3,244	–	3,244
Deferred tax arising	–	–	–	–	–	–	(649)	(649)	–	(649)
Total other comprehensive income / (expense)	–	–	–	–	–	(2,326)	2,520	194	(186)	8
Total comprehensive income / (expense) for the year	–	–	–	–	–	(2,326)	22,377	20,051	(1,820)	18,231
Transactions with owners, recorded directly in equity										
Contributions by and distributions to owners										
Share-based payments	–	–	–	–	–	–	2,496	2,496	–	2,496
Deferred tax on share-based payments	–	–	–	–	–	–	460	460	–	460
Corporation tax on share-based payments	–	–	–	–	–	–	332	332	–	332
Dividends to equity shareholders	–	–	–	–	–	–	(10,791)	(10,791)	–	(10,791)
Purchase of own shares	–	–	(4,266)	–	–	–	–	(4,266)	–	(4,266)
Disposal of own shares	–	–	7,089	–	–	–	(7,089)	–	–	–
Total contributions by and distributions to owners	–	–	2,823	–	–	–	(14,592)	(11,769)	–	(11,769)
Total transactions with owners of the Company	–	–	2,823	–	–	(2,326)	7,785	8,282	(1,820)	6,462
At 31 December 2014	49,845	22,695	(6,689)	75,394	(213,067)	(2,488)	254,729	180,419	1,475	181,894

Notes to the Consolidated Financial Statements

1 Accounting policies

Significant accounting policies

Marshalls plc (the "Company") is a company domiciled in the United Kingdom. The Consolidated Financial Statements of the Company for the year ended 31 December 2015 comprise the Company and its subsidiaries (together referred to as the "Group").

The Consolidated Financial Statements were authorised for issue by the Directors on 11 March 2016.

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.

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 2015 (except as noted below). Their adoption has not had any material impact on the disclosures or on the amounts reported in the Consolidated Financial Statements.

- Amendments to IAS 19 *"Defined Benefit Plans: Employee Contributions".* The amendments are effective in the EU for accounting periods beginning on or after 1 February 2015. However, earlier application is permitted so that companies applying IFRSs, as adopted in the EU, are able to adopt the amendments in accordance with the IASB effective date of 1 July 2014. The amendments to IAS 19 clarify the requirements that relate to how contributions from employees, or third parties, that are linked to service should be attributed to periods of service. In addition, they permit a practical expedient if the amount of the contributions is independent of the number of years of service. These amendments have been applied retrospectively. The application of these amendments has had no material impact on the disclosures or on the amounts recognised in the Group's Consolidated Financial Statements.
- Annual Improvements to IFRSs 2010 – 2012 Cycle. The amendments are effective in the EU for accounting periods beginning on or after 1 February 2015. However, earlier application is permitted so that companies applying IFRSs, as adopted in the EU, are able to adopt the amendments in accordance with the IASB effective date of 1 July 2014. The majority of the amendments are in the nature of clarifications rather than substantive changes to existing requirements. However, the amendments to IFRS 8 *"Operating Segments"* - (aggregation of operating segments) and IAS 24 *"Related Party Disclosures"* - (key management personnel) represent changes to existing requirements. The amendments to IFRS 8 require an entity to disclose the judgements made by management in applying the aggregation criteria to operating segments, including a description of the operating segments aggregated and the economic indicators assessed in determining whether the operating segments have similar economic characteristics. The amendments to IAS 24 clarify that a management entity providing key management personnel services to a reporting entity is a related party of the reporting entity. Consequently, the reporting entity must disclose as related party transactions the amounts incurred for the service paid or payable to the management entity for the provision of key management. The application of the amendments has had no material impact on the disclosures or on the amounts recognised in the Group's Consolidated Financial Statements.

The following standards and amendments to standards are in issue but not yet effective, and have not yet been adopted by the EU, and therefore have not been applied in the Group's Consolidated Financial Statements.

- IFRS 9 *"Financial Instruments"*;
- IFRS 15 *"Revenue from Contracts with Customers"*;
- IFRS 11 (amendments) *"Accounting for Acquisitions of Interests in Joint Operations"*;
- IAS 1 (amendments) *"Disclosure Initiative"*;
- IAS 16 and IAS 38 (amendments) *"Clarification of Acceptable Methods of Depreciation and Amortisation"*;
- IAS 16 and IAS 41 (amendments) *"Agriculture: Bearer Plants"*;
- IAS 27 (amendments) *"Equity Method in Separate Financial Statements"*;
- IFRS 10 and IAS 28 (amendments) *"Sale or Contribution of Assets between an Investor and its Associate or Joint Venture"*;
- IFRS 10, IFRS 12 and IAS 28 (amendments) *"Investment Entities: Applying the Consolidation Exemption"*;
- Annual Improvements to IFRSs: 2012 – 2014 Cycle – Amendments to: IFRS 5 *"Non-current Assets Held for Sale and Discontinued Operations"*, IFRS 7 *"Financial Instruments: Disclosures,"* IAS 19 *"Employee Benefits"* and IAS 34 *"Interim Financial Reporting"*;
- IFRS 14 *"Regulatory Deferral Accounts"*;

1 Accounting policies *continued*

Significant accounting policies *continued*

- IFRS 16 *"Leases"*;
- IAS 12 (amendments) *"Income Taxes"*; and
- IFRIC 21 *"Levies"*.

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 that IFRS 9 and IFRS 16 will impact both the measurement and disclosures of financial instruments and leases respectively and IFRS 15 may have an impact on revenue recognition and related disclosures. Beyond the information above, it is not practicable to provide a reasonable estimate of the effect of IFRS 9, IFRS 15 and IFRS 16 until a detailed review has been completed.

(a) Statement of compliance

The Group Consolidated Financial Statements have been prepared and approved by the Directors in accordance with International Financial Reporting Standards as adopted by the European Union ("adopted IFRSs"). The Parent Company has elected to prepare its Financial Statements in accordance with FRS 101 and these are presented on pages 111 to 118.

(b) Basis of preparation

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report on pages 1 to 33. 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 17 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 17 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 10 July 2015. In the opinion of the Directors there are sufficient unutilised facilities held which mature after 12 months. The Group's performance is dependent on economic and market conditions, the outlook for which is difficult to predict. Based on current expectations, the Group's cash forecasts continue to meet half-year and year-end bank covenants and there is adequate headroom which is not dependent on facility renewals. The Directors believe that the Group is well placed to manage its business risks successfully. Accordingly, they continue to adopt the going concern basis in preparing the Consolidated Financial Statements.

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

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

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

The preparation of Financial Statements in conformity with adopted IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. These are set out in Note 26 on page 110. 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 26.

The Consolidated Statement of Comprehensive Income and Consolidated Statement of Changes in Equity have been restated in respect of the year ended 31 December 2014 (£792,000 reduction to other comprehensive income). The restatement was in respect of deferred taxation and corporation tax on share-based payments which were previously presented within other comprehensive income. The Statements have also been restated to show the effects of the net investment hedging on a gross basis in both periods. There is no impact on retained profits or net assets.

Notes to the Consolidated Financial Statements *continued*

1 Accounting policies *continued*

Significant accounting policies *continued*

(c) Basis of consolidation

(i) Subsidiaries

Subsidiaries 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 one 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.

(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.

1 Accounting policies *continued*

Significant accounting policies *continued*

(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)).

(f) Hedging

(i) Cash flow hedges

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

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

(ii) Economic hedges

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

(g) Property, plant and equipment

(i) Owned assets

Items of property, plant and equipment are stated at cost less accumulated depreciation (see below) and impairment losses (see accounting policy (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 (see overleaf) 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.

Notes to the Consolidated Financial Statements *continued*

1 Accounting policies *continued*

Significant accounting policies *continued*

(g) Property, plant and equipment *continued*

(iv) Depreciation

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

Freehold and long leasehold buildings	–	2.5 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);
- 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 of business combinations that occurred prior to 1 January 2015 were not adjusted in preparing the Group's opening IFRS balance sheet at 1 January 2015.

1 Accounting policies *continued*

Significant accounting policies *continued*

(h) Intangible assets *continued*

(i) Goodwill *continued*

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

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

(iv) Subsequent expenditure

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

(v) Amortisation

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

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

(i) Trade and other receivables

Trade and other receivables are stated at 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.

Notes to the Consolidated Financial Statements *continued*

1 Accounting policies *continued*

Significant accounting policies *continued*

(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, 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) and deferred tax assets (see accounting policy w), 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 is redeemable but only at the Company's option. Dividends on share capital classified as equity are recognised as distributions within equity. Non-equity share capital is classified as a liability if it is redeemable on a specific date or at the option of the shareholders or if dividend payments are not discretionary. Dividends thereon are recognised in the Consolidated Income Statement as a financial expense.

(ii) Dividends

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

(o) Interest-bearing borrowings

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

(p) Pension schemes

(i) Defined benefit schemes

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

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

1 Accounting policies *continued*

Significant accounting policies *continued*

(p) Pension schemes *continued*

(i) Defined benefit schemes *continued*

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") and there are also outstanding awards from previous years under the 2005 Long Term Incentive Plan ("LTIP").

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

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

(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 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 significant risks and rewards of ownership of the goods have been transferred to the buyer. Revenue represents the invoiced value of sales to customers less returns, allowances, 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.

(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.

Notes to the Consolidated Financial Statements *continued*

1 Accounting policies *continued*

Significant accounting policies *continued*

(v) Expenses *continued*

(iii) Financial expenses

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

(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 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.

(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.

2 Segmental analysis

Segment revenues and results

	2015			2014		
	Landscape Products £'000	**Other £'000**	**Total £'000**	Landscape Products £'000	Other £'000	Total £'000
Total revenue	**299,650**	**90,915**	**390,565**	280,508*	82,933*	363,441
Inter-segment revenue	**(123)**	**(4,238)**	**(4,361)**	(194)	(4,731)	(4,925)
External revenue	**299,527**	**86,677**	**386,204**	280,314*	78,202*	358,516
Segment operating profit	**41,816**	**1,763**	**43,579**	36,066	(4,549)**	31,517
Unallocated administration costs			**(5,545)**			(6,330)
Associates			**(582)**			118
Operating profit			**37,452**			25,305
Finance charges (net)			**(2,174)**			(2,884)
Profit before tax			**35,278**			22,421
Taxation			**(7,387)**			(4,198)
Profit after tax			**27,891**			18,223

* The comparative revenue figures have been restated to ensure consistent classification with the analysis reported for the year ended 31 December 2015.

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

2 Segmental analysis *continued*

Segment revenues and results *continued*

The Group has 2 customers who 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 the one integrated production, logistics and distribution network supporting both end markets.

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

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

Segment assets

	2015 £'000	2014 £'000
Fixed assets and inventory:		
Landscape Products	**156,112**	156,509
Other	**56,631**	60,559
Total segment fixed assets and inventory	**212,743**	217,068
Unallocated assets	**117,089**	111,476
Consolidated total assets	**329,832**	328,544

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	
	2015 £'000	2014 £'000	**2015 £'000**	2014 £'000
Landscape Products	**10,465**	9,919	**11,678**	7,994
Other	**3,911**	3,294	**3,816**	4,016
	14,376	13,213	**15,494**	12,010

Geographical destination of revenue

	2015 £'000	2014 £'000
United Kingdom	**367,248**	338,483*
Rest of the World	**18,956**	20,033*
	386,204	358,516

* The comparative revenue figures have been restated to ensure consistent classification with the analysis reported for the year ended 31 December 2015.

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.

Notes to the Consolidated Financial Statements *continued*

3 Net operating costs

	2015 £'000	2014 £'000
Raw materials and consumables	**141,471**	137,250
Changes in inventories of finished goods and work in progress	**(1,801)**	(3,484)
Personnel costs	**96,716**	93,439
Depreciation – owned	**13,054**	11,907
– leased	**–**	75
Amortisation of intangible assets	**1,322**	1,231
Own work capitalised	**(1,810)**	(1,473)
Other operating costs	**100,707**	94,910
Restructuring costs in Marshalls NV	**–**	1,995
Operating costs	**349,659**	335,850
Other operating income	**(1,340)**	(2,161)
Net gain on asset and property disposals	**(149)**	(360)
Associates	**582**	(118)
Net operating costs	**348,752**	333,211

	2015 £'000	2014 £'000
Net operating costs include:		
Auditor's remuneration (see below)	**160**	167
Leasing costs	**9,203**	8,081
Hire of plant and machinery	**4,881**	4,640
Research and development costs	**3,134**	2,684

In respect of the year under review, Deloitte LLP (2014: KPMG LLP) carried out work in relation to:

	2015 £'000	2014 £'000
Audit of Marshalls plc	**20**	20
Audit of financial statements of subsidiaries of the Company	**120**	103
Half-yearly review of Marshalls plc	**20**	40
Taxation compliance services	**–**	4
	160	167

4 Personnel costs

	2015 £'000	2014 £'000
Personnel costs (including amounts charged in the year in relation to Directors):		
Wages and salaries	**79,691**	76,645
Social security costs	**9,260**	8,960
Share-based payments	**2,490**	3,062
Contributions to defined contribution pension scheme	**5,275**	4,772
Included within net operating costs (Note 3)	**96,716**	93,439
Personnel costs included in operational restructuring costs	**–**	507
Total personnel costs	**96,716**	93,946

4 Personnel costs *continued*

	2015 £'000	2014 £'000
Remuneration of Directors:		
Salary	**649**	859
Other benefits	**34**	46
MIP Element A bonus	**734**	877
MIP Element B bonus	**325**	333
Amounts receivable under the LTIP	**816**	2,729
Salary supplement in lieu of pension	**129**	205
Non-Executive Directors' fees and fixed allowances	**344**	300
	3,031	5,349

The aggregate of emoluments and amounts receivable under the MIP and the LTIP of the highest paid Director was £2,064,000 (2014: £1,924,000), including a salary supplement in lieu of pension of £82,000 (2014: £54,000).

There are no Directors to whom retirement benefits are accruing in respect of qualifying services. As set out in the Remuneration Report on page 49, the Executive Directors receive a salary supplement in lieu of pension equal to their contractual entitlement of 20 per cent of basic salary.

Further details of Directors' remuneration, share options, long-term incentive plans and Directors' pension entitlements are disclosed in the Remuneration Report on pages 46 to 60.

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

	2015 Number	2014 Number
Continuing operations	**2,237**	2,132

5 Financial expenses and income

	2015 £'000	2014 £'000
(a) Financial expenses		
Net interest expense on defined benefit pension scheme	**406**	48
Interest expense on bank loans, overdrafts and loan notes	**1,767**	2,835
Finance lease interest expense	**8**	6
	2,181	2,889
(b) Financial income		
Interest receivable and similar income	**7**	5

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

6 Income tax expense

	2015 £'000	2014 £'000
Current tax expense		
Current year	**8,164**	5,670
Adjustments for prior years	**289**	(1,834)
	8,453	3,836
Deferred taxation expense		
Origination and reversal of temporary differences:		
Current year	**(684)**	(319)
Adjustments for prior years	**(382)**	681
Total tax expense	**7,387**	4,198

Notes to the Consolidated Financial Statements *continued*

6 Income tax expense *continued*

	%	2015 £'000	%	2014 £'000
Reconciliation of effective tax rate				
Profit before tax	**100.0**	**35,278**	100.0	22,421
Tax using domestic corporation tax rate	**20.2**	**7,144**	21.5	4,821
Impact of capital allowances in excess of depreciation	**2.0**	**710**	3.8	845
Short-term timing differences	**(0.2)**	**(81)**	(1.0)	(221)
Adjustment to tax charge in prior year	**0.8**	**289**	(8.2)	(1,834)
Expenses not deductible for tax purposes	**1.1**	**391**	1.0	225
Corporation tax charge for the year	**23.9**	**8,453**	17.1	3,836
Impact of capital allowances in excess of depreciation	**(1.0)**	**(355)**	(4.2)	(953)
Short-term timing differences	**(0.2)**	**(79)**	(1.0)	(227)
Pension scheme movements	**2.1**	**746**	4.1	930
Other items	**(0.3)**	**(100)**	(0.3)	(69)
Adjustment to tax charge in prior year	**(1.1)**	**(382)**	3.0	681
Impact of the change in the rate of corporation tax on deferred taxation	**(2.5)**	**(896)**	–	–
Total tax charge for the year	**20.9**	**7,387**	18.7	4,198

The net amount of deferred taxation credited / (debited) to the Consolidated Statement of Comprehensive Income in the year was £189,000 credit (2014: £67,000 debit).

The majority of the Group's profits are earned in the UK with the standard rate of corporation tax being 20.25 per cent for the year to 31 December 2015.

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 to 31 December 2015 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.

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 to 31 December 2015. In total, the trading profits were not material and no tax was due.

7 Earnings per share

Basic earnings per share of 14.32 pence (2014: 10.13 pence) per share is calculated by dividing the profit attributable to Ordinary Shareholders for the financial year, after adjusting for non-controlling interests, of £28,149,000 (2014: £19,857,000) by the weighted average number of shares in issue during the period of 196,574,435 (2014: 196,116,404).

7 Earnings per share *continued*

Profit attributable to Ordinary Shareholders

	2015 £'000	2014 £'000
Profit for the financial year	**27,891**	18,223
Loss attributable to non-controlling interests	**258**	1,634
Profit attributable to Ordinary Shareholders	**28,149**	19,857

Weighted average number of Ordinary Shares

	2015 Number	2014 Number
Number of issued Ordinary Shares (at beginning of the year)	**199,378,755**	199,378,755
Effect of shares transferred into employee benefit trust	**(2,804,320)**	(3,262,351)
Weighted average number of Ordinary Shares at end of the year	**196,574,435**	196,116,404

Diluted earnings per share of 14.10 pence (2014: 9.89 pence) per share is calculated by dividing the profit for the financial year, after adjusting for non-controlling interests, of £28,149,000 (2014: £19,857,000) by the weighted average number of shares in issue during the period of 196,574,435 (2014: 196,116,404) plus potentially dilutive shares of 3,092,619 (2014: 4,646,375), which totals 199,667,054 (2014: 200,762,799).

Weighted average number of Ordinary Shares (diluted)

	2015 Number	2014 Number
Weighted average number of Ordinary Shares	**196,574,435**	196,116,404
Potentially dilutive shares	**3,092,619**	4,646,375
Weighted average number of Ordinary Shares (diluted)	**199,667,054**	200,762,779

8 Dividends

After the balance sheet date a final dividend of 4.75 pence (2014: 4.00 pence) per qualifying Ordinary Share was proposed by the Directors. In addition a supplementary dividend of 2.00 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	2015 £'000	2014 £'000
2015 supplementary	**2.00**	**3,988**	
2015 final	**4.75**	**9,470**	
2015 interim	**2.25**	**4,425**	
	9.00	**17,883**	
2014 final	4.00		7,975
2014 interim	2.00		3,924
	6.00		11,899

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

	Pence per qualifying share	2015 £'000	2014 £'000
2015 interim	**2.25**	**4,425**	
2014 final	**4.00**	**7,866**	
	6.25	**12,291**	
2014 interim	2.00		3,924
2013 final	3.50		6,867
	5.50		10,791

Notes to the Consolidated Financial Statements *continued*

8 Dividends *continued*

The Board recommends a 2015 final dividend of 4.75 pence per qualifying Ordinary Share (amounting to £9,470,000), alongside a supplementary dividend of 2.00 pence per qualifying Ordinary Share (amounting to £3,988,000), to be paid on 8 July 2016 to shareholders registered at the close of business on 3 June 2016.

9 Property, plant and equipment

	Land and buildings £'000	Quarries £'000	Plant, machinery and vehicles £'000	Total £'000
Cost				
At 1 January 2014	89,343	20,101	297,084	406,528
Exchange differences	(428)	–	(236)	(664)
Additions	894	1,072	9,303	11,269
Reclassification	(237)	237	–	–
Disposals	(3,640)	–	(1,301)	(4,941)
At 31 December 2014	85,932	21,410	304,850	412,192
At 1 January 2015	**85,932**	**21,410**	**304,850**	**412,192**
Exchange differences	**(449)**	**–**	**(300)**	**(749)**
Additions	**1,343**	**1,541**	**11,701**	**14,585**
Reclassified as held for sale	**(2,231)**	**–**	**–**	**(2,231)**
Disposals	**(203)**	**–**	**(2,817)**	**(3,020)**
At 31 December 2015	**84,392**	**22,951**	**313,434**	**420,777**

	Land and buildings £'000	Quarries £'000	Plant, machinery and vehicles £'000	Total £'000
Depreciation and impairment losses				
At 1 January 2014	35,009	5,786	211,012	251,807
Depreciation charge for the year	1,567	235	10,180	11,982
Exchange differences	1	–	44	45
Reclassification	(635)	635	–	–
Disposals	(1,190)	–	(930)	(2,120)
Impairments	–	–	733	733
At 31 December 2014	34,752	6,656	221,039	262,447
At 1 January 2015	**34,752**	**6,656**	**221,039**	**262,447**
Depreciation charge for the year	**1,825**	**348**	**10,881**	**13,054**
Exchange differences	**(3)**	**–**	**(158)**	**(161)**
Disposals	**(7)**	**–**	**(2,045)**	**(2,052)**
At 31 December 2015	**36,567**	**7,004**	**229,717**	**273,288**
Net book value				
At 1 January 2014	54,334	14,315	86,072	154,721
At 31 December 2014	51,180	14,754	83,811	149,745
At 31 December 2015	**47,825**	**15,947**	**83,717**	**147,489**

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

During the year ended 31 December 2015, land and buildings with a book value of £2,231,000 have been reclassified as held for sale in accordance with IFRS 5 *"Non-current Assets Held for Sale and Discontinued Operations"*.

9 Property, plant and equipment *continued*

The carrying amount of tangible fixed assets includes £402,000 (2014: £568,000) in respect of assets held under finance leases. Group cost of land and buildings and plant and machinery includes £140,000 (2014: £168,000) and £8,011,000 (2014: £872,000) respectively for assets in the course of construction.

The impairment charge of £nil (2014: £733,000) relates to the restructuring of the Marshalls NV business (page 86) and writes down its value to its fair value less costs to sell.

Capital commitments

	2015 £'000	2014 £'000
Capital expenditure that has been contracted for but for which no provision has been made in the Consolidated Financial Statements	**550**	246

Depreciation charge

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

	2015 £'000	2014 £'000
Net operating costs (Note 3)	**13,054**	11,982

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 2014	43,691	2,210	1,200	1,660	159	10,026	58,946
Additions	–	–	–	–	–	741	741
At 31 December 2014	43,691	2,210	1,200	1,660	159	10,767	59,687
At 1 January 2015	**43,691**	**2,210**	**1,200**	**1,660**	**159**	**10,767**	**59,687**
Additions	**–**	**–**	**–**	**–**	**–**	**909**	**909**
At 31 December 2015	**43,691**	**2,210**	**1,200**	**1,660**	**159**	**11,676**	**60,596**
Amortisation and impairment losses							
At 1 January 2014	8,912	2,210	608	1,302	77	4,766	17,875
Amortisation for the year	–	–	60	32	8	1,131	1,231
At 31 December 2014	8,912	2,210	668	1,334	85	5,897	19,106
At 1 January 2015	**8,912**	**2,210**	**668**	**1,334**	**85**	**5,897**	**19,106**
Amortisation for the year	**–**	**–**	**60**	**32**	**8**	**1,222**	**1,322**
At 31 December 2015	**8,912**	**2,210**	**728**	**1,366**	**93**	**7,119**	**20,428**
Carrying amounts							
At 1 January 2014	34,779	–	592	358	82	5,260	41,071
At 1 January 2015	34,779	–	532	326	74	4,870	40,581
At 31 December 2015	**34,779**	**–**	**472**	**294**	**66**	**4,557**	**40,168**

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.

Notes to the Consolidated Financial Statements *continued*

10 Intangible assets *continued*

The recoverable amounts of the CGUs are determined from value-in-use calculations and at both 31 December 2015 and 31 December 2014 the full amount of goodwill in the Group Balance Sheet related to the Landscape Products CGU. These calculations use cash flow projections based on a combination of individual financial 5-year forecasts, containing assumptions for revenue growth and operational gearing, and appropriate long-term growth rates of 2.6 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 10.0 per cent (2014: 9.2 per cent). The Directors have reviewed the recoverable amounts of the CGUs and do not consider that any reasonable change in the assumptions would give rise to the need for further impairment.

Included in software additions is £739,000 (2014: £718,000) of own work capitalised.

Amortisation charge

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

	2015 £'000	2014 £'000
Net operating costs (Note 3)	**1,322**	1,231

11 Investment in associates

	2015 £'000	2014 £'000
Carrying value		
At 1 January	**782**	664
Share of results of associates	**71**	118
Impairment losses	**(653)**	–
Disposals	**(200)**	–
At 31 December	**–**	782

	2015 £'000	2014 £'000
Investment at cost	**2,250**	2,250
Impairment losses	**(2,219)**	(1,566)
Cumulative share of results of associates	**169**	98
Disposals	**(200)**	–
Carrying value at 31 December	**–**	782

On 31 December 2015 the Group disposed of its 25 per cent stake in Creeton Quarry Limited and Oathill Quarry Limited for proceeds of £200,000.

The Group's share of results of associates in the year ended 31 December 2015 was £71,000 profit (2014: £118,000 profit) and, on the grounds of materiality, no additional disclosure has been made.

12 Inventories

	2015 £'000	2014 £'000
Raw materials and consumables	**12,998**	13,266
Finished goods and goods for resale	**52,256**	54,057
	65,254	67,323

Inventories stated at fair value less cost to sell at 31 December 2015 amounted to £6,745,000 (2014: £7,875,000). The write down of inventories made during the year amounted to £3,797,000 (2014: £1,236,000). There were no reversals of inventory write-downs made in previous years in either 2015 or 2014.

13 Trade and other receivables

	2015 £'000	2014 £'000
Trade receivables	**38,101**	34,641
Other receivables	**2,174**	2,885
Prepayments and accrued income	**4,267**	7,424
	44,542	44,950

Ageing of trade receivables

	2015 £'000	2014 £'000
Neither impaired nor past due	**20,133**	18,821
Not impaired but overdue by less than 30 days	**13,304**	10,353
Not impaired but overdue by between 30 and 60 days	**2,400**	3,301
Not impaired but overdue by more than 60 days	**3,097**	2,554
Allowance for doubtful debts	**(833)**	(388)
	38,101	34,641

Receivables totalling £415,000 (2014: £nil) were due after more than 1 year. All amounts disclosed above are considered recoverable.

The comparative amounts for trade receivables and other payables (Note 15) have been restated by £12,696,000 to reflect comparability with regard to gross-settled transactions. Notes 2 and 17 have also been updated accordingly.

14 Cash and cash equivalents

	2015 £'000	2014 £'000
Bank balances	**24,964**	20,289
Cash in hand	**26**	31
Cash and cash equivalents in the Consolidated Cash Flow Statement	**24,990**	20,320

15 Trade and other payables

	2015 £'000	2014 £'000
Current liabilities		
Trade payables	**37,356**	31,186
Taxation and social security	**8,775**	8,401
Other payables	**16,942**	18,524
Accruals	**16,534**	15,305
	79,607	73,416

All trade payables are due in 6 months or less.

Notes to the Consolidated Financial Statements *continued*

16 Loans

	2015 £'000	2014 £'000
Current liabilities		
Finance lease liabilities	**34**	85
Non-current liabilities		
Bank loans	**36,125**	50,307
Finance lease liabilities	**293**	408
	36,418	50,715

Bank loans

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

Finance lease liabilities

	Minimum lease payments 2015 £'000	Interest 2015 £'000	Principal 2015 £'000	Minimum lease payments 2014 £'000	Interest 2014 £'000	Principal 2014 £'000
Less than 1 year	**40**	**6**	**34**	95	10	85
1 to 2 years	**40**	**6**	**34**	96	9	87
2 to 5 years	**120**	**13**	**107**	148	16	132
In more than 5 years	**160**	**8**	**152**	200	11	189
	360	**33**	**327**	539	46	493

17 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 page 97.

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 2014.

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 2015 and 31 December 2014.

17 Financial instruments *continued*

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 20 to 23. The key financial risks resulting from financial instruments are liquidity risk, interest rate risk, credit risk, foreign currency risk and pricing risk.

In managing interest rate and currency risks the Group aims to reduce the impact of short-term fluctuations on the Group's earnings. Over the longer term, however, permanent changes in foreign exchange and interest rates would have an impact on consolidated earnings. For instance, a weakening of Pound Sterling on the foreign currency market would increase the cost of certain raw materials, whereas a strengthening would have the opposite effect.

(a) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Board is responsible for ensuring that the Group has sufficient liquidity to meet its financial liabilities as they fall due and does so by monitoring cash flow forecasts and budgets. Cash resources are largely and normally generated through operations and short-term flexibility is achieved by bank facilities. Bank debt is raised centrally and the Group aims to maintain a balance between flexibility and continuity of funding by having a range of maturities on its borrowings. Details of the Group borrowing facilities are provided on page 98.

(b) Interest rate risk

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

Approximately 60 to 70 per cent of core debt is covered by interest rate swaps of varying maturities up until 2018, which reflects the maturity date of the related loans and medium-term requirements, in accordance with Group policy. The Group classifies its interest rate swaps as cash flow hedges and states them at fair value. The fair value of interest rate swaps is a £77,000 liability (2014: £76,000 liability) and is adjusted against the hedging reserve on an ongoing basis.

The period that the swaps cover is matched against the debt maturity in order to fix the impact on the Income Statement. During the year £144,000 (2014: £536,000) has been recognised in other comprehensive income for the year with £109,000 (2014: £320,000) 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 17(e)) and forward contracts this gives a total of £940,000 (2014: £3,984,000) recognised in other comprehensive income for the year with £1,984,000 (2014: £1,076,000) being reclassified from equity to the Income Statement.

Sensitivity analysis

A change of 100 basis points in interest rates at the balance sheet date would have 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 2014.

	2015 £'000	2014 £'000
Increase of 100 basis points	**(349)**	(244)
Decrease of 100 basis points	**349**	244

Notes to the Consolidated Financial Statements *continued*

17 Financial instruments *continued*

Financial risks *continued*

(c) Credit risk

Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed on all customers requiring credit over a certain amount and, where appropriate, credit insurance cover is obtained. This provides excellent intelligence to minimise the number and value of bad debts and ultimately provides compensation if bad debts are incurred. An ageing of trade receivables is shown in Note 13 on page 93.

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

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

(d) Foreign currency risk

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

The Group's policy is to cover all significant foreign currency commitments in respect of trade receivables and trade payables by using forward foreign currency contracts. 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 £19,000 liability (2014: £16,000 asset) and is adjusted against the hedging reserve on an ongoing basis. At 31 December 2015 all outstanding forward exchange contracts had a maturity date within 6 months.

The foreign currency profile of monetary items was:

	2015 Sterling £'000	**2015 Euro £'000**	**2015 US Dollars £'000**	**2015 Total £'000**	2014 Sterling £'000	2014 Euro £'000	2014 US Dollars £'000	2014 Total £'000
Cash and cash equivalents	**22,925**	**1,164**	**901**	**24,990**	18,807	1,254	259	20,320
Trade receivables	**35,341**	**2,549**	**211**	**38,101**	31,798	2,693	150	34,641
Secured bank loans	**(20,000)**	**(16,125)**	**–**	**(36,125)**	(35,000)	(15,307)	–	(50,307)
Trade payables	**(35,083)**	**2,743**	**(5,016)**	**(37,356)**	(22,729)	(7,901)	(556)	(31,186)
Forward exchange contracts	**(2,110)**	**(23)**	**(16)**	**(2,149)**	(3,175)	(17)	–	(3,192)
Balance sheet exposure	**1,073**	**(9,692)**	**(3,920)**	**(12,539)**	(10,299)	(19,278)	(147)	(29,724)

A 10 per cent strengthening and weakening of the following currencies against the Pound Sterling at 31 December 2015 would have increased / (decreased) equity and profit or loss by the amounts shown below. This calculation assumes that the change occurred at the balance sheet date and had been applied to risk exposures existing at that date.

This analysis assumes that all other variables, in particular other exchange rates and interest rates, remain constant. The analysis was performed on the same basis for 2014:

	2015 £'000	2014 £'000
10 per cent strengthening of £ against €	**1,045**	1,895
10 per cent weakening of £ against €	**(1,045)**	(1,895)
10 per cent strengthening of £ against $	**462**	17
10 per cent weakening of £ against $	**(462)**	(17)

(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 2016. The Group classifies its fuel hedges as cash flow hedges and states them at fair value. The fair value of the fuel hedges is £2,053,000 liability (2014: £3,132,000 liability) and is adjusted against the hedging reserve on an ongoing basis. The period that the fuel hedges cover is matched against future expected purchases in order to fix the impact on the Income Statement. During the year £796,000 (2014: £3,448,000) has been recognised in other comprehensive income, with £1,875,000 (2014: £756,000) being reclassified from equity to the Income Statement. The fuel hedges have been fully effective in the period.

17 Financial instruments *continued*

Financial risks *continued*

(f) Other risks

Further information about the Group's strategic and financial risks is contained in the Strategic Report on pages 20 to 23.

Effective interest rates and maturity of liabilities

At 31 December 2015 there were £327,000 (2014: £493,000) of Group borrowings on a fixed rate. Interest rate swaps have been taken out with the intention to fix the interest on approximately 60 to 70 per cent of the Group's core debt. 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 2015								
Cash and cash equivalents (Note 14)	Variable	**2.27**	**(24,990)**	**(24,990)**	**–**	**–**	**–**	**–**
Bank loans	Variable	**2.27**	**36,125**	**–**	**–**	**19,438**	**16,687**	**–**
Finance lease liabilities	Fixed	**10.0**	**327**	**–**	**34**	**34**	**107**	**152**
			11,462	**(24,990)**	**34**	**19,472**	**16,794**	**152**

	Fixed or variable rate	Effective interest rate %	Total £'000	6 months or less £'000	6 – 12 months £'000	1 – 2 years £'000	2 – 5 years £'000	More than 5 years £'000
31 December 2014								
Cash and cash equivalents (Note 14)	Variable	2.41	(20,320)	(20,320)	–	–	–	–
Bank loans	Variable	2.41	50,307	–	–	15,000	35,307	–
Finance lease liabilities	Fixed	8.80	493	26	59	87	132	189
			30,480	(20,294)	59	15,087	35,439	189

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 2015								
Bank loans	Variable	**36,125**	**37,020**	**204**	**203**	**19,746**	**16,867**	**–**
Trade payables	Variable	**37,356**	**37,356**	**37,356**	**–**	**–**	**–**	**–**
Finance lease liabilities	Fixed	**327**	**360**	**3**	**37**	**40**	**120**	**160**
Financial liabilities	Fixed	**2,149**	**2,177**	**1,294**	**841**	**42**	**–**	**–**
		75,957	**76,913**	**38,857**	**1,081**	**19,828**	**16,987**	**160**

	Fixed or variable rate	Carrying value £'000	Total £'000	6 months or less £'000	6 – 12 months £'000	1 – 2 years £'000	2 – 5 years £'000	More than 5 years £'000
31 December 2014								
Bank loans	Variable	50,307	53,485	504	501	15,901	36,579	–
Trade payables	Variable	31,186	31,186	31,186	–	–	–	–
Finance lease liabilities	Fixed	493	539	31	64	96	148	200
Financial liabilities	Fixed	3,192	3,345	1,050	1,005	1,247	43	–
		85,178	88,555	32,771	1,570	17,244	36,770	200

Notes to the Consolidated Financial Statements *continued*

17 Financial instruments *continued*

Borrowing facilities

The total bank borrowing facilities at 31 December 2015 amounted to £95.0 million (2014: £125.0 million) of which £58.9 million (2014: £74.7 million) remained unutilised. There are additional seasonal bank working capital facilities of £20.0 million available between 1 February and 31 August each year. The undrawn facilities available at 31 December 2015, in respect of which all conditions precedent had been met, were as follows:

	2015 £'000	2014 £'000
Committed:		
Expiring in more than 2 years but not more than 5 years	**43,875**	34,693
Expiring in 1 year or less	**–**	25,000
Uncommitted:		
Expiring in 1 year or less	**15,000**	15,000
	58,875	74,693

In July 2015, following the continued steady reduction in net debt, the Group undertook a full review of its bank facilities in order to align them with current strategy and to ensure headroom against available facilities remains at appropriate levels. On 10 July 2015, the Group decreased its committed facility levels by £30.0 million to £80.0 million, comprising new facilities with extended maturities. The committed facilities are all revolving credit facilities with interest charged at variable rate based on LIBOR. On 10 July 2015, the Group also renewed its short-term working capital facilities.

The maturity profile of borrowing facilities is structured to provide balanced, committed and phased medium-term debt. The current facilities are set out as follows:

	Facility £'000	Cumulative facility £'000
Committed facilities:		
Q3: 2020	20,000	20,000
Q3: 2019	20,000	40,000
Q3: 2018	20,000	60,000
Q3: 2017	20,000	80,000
On demand facilities:		
Available all year	15,000	95,000
Seasonal (February to August inclusive)	20,000	115,000

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 2015 is shown below:

	2015		2014	
	Book amount £'000	Fair value £'000	Book amount £'000	Fair value £'000
Trade and other receivables	**44,542**	**44,542**	44,950	44,950
Cash and cash equivalents	**24,990**	**24,990**	20,320	20,320
Bank loans	**(36,125)**	**(34,906)**	(50,307)	(49,451)
Finance lease liabilities	**(327)**	**(360)**	(493)	(539)
Trade and other payables	**(79,607)**	**(79,607)**	(73,416)	(73,416)
Interest rate swaps, forward contracts and fuel hedges	**(2,149)**	**(2,149)**	(3,192)	(3,192)
Financial liabilities – net	**(48,676)**		(62,138)	
Other assets – net	**241,394**		244,032	
	192,718		181,894	

17 Financial instruments *continued*

Borrowing facilities *continued*

Estimation of fair values

The following summarises the major methods and assumptions used in estimating the fair values of financial instruments reflected in the table.

(a) Derivatives

Derivative contracts are either marked to market using listed market prices or by discounting the contractual forward price at the relevant rate and deducting the current spot rate. For interest rate swaps, broker quotes are used.

(b) Interest-bearing loans and borrowings

Fair value is calculated based on the expected future principal and interest cash flows discounted at the market rate of interest at the balance sheet date.

(c) Finance lease liabilities

The fair value is estimated as the present value of future cash flows, discounted at market interest rates for homogeneous lease agreements. The estimated fair values reflect changes in interest rates.

(d) Trade and other receivables / payables

For receivables / payables with a remaining life of less than 1 year, the notional amount is deemed to reflect the fair value. All other receivables / payables are discounted to determine the fair value.

(e) Fair value hierarchy

The table below analyses financial instruments, measured at fair value, into a fair value hierarchy based on the valuation techniques used to determine fair value.

— Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.

— Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

— Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
31 December 2015				
Derivative financial liabilities	**–**	**2,149**	**–**	**2,149**
31 December 2014				
Derivative financial liabilities	–	3,192	–	3,192

18 Employee benefits

The Company sponsors a pension scheme for employees in the UK which incorporates a funded defined benefit pension section and a defined contribution section (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, which closed to future service accrual on 30 June 2006, provides pension and lump sums to members on retirement and to dependants on death. Members of the defined benefit section became entitled to a deferred pension on closure. 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 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.

Notes to the Consolidated Financial Statements *continued*

18 Employee benefits *continued*

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 2015 by a qualified independent actuary. The figures in the following disclosure were measured using the projected unit method.

During 2015 an exercise was carried out offering eligible defined benefit section members and current pensioners and dependants the option to commute small pensions for a cash lump sum representing the value of their benefits. This represents a settlement of benefits for members taking the option. The cash sump sums were determined by the Trustee on a best estimate basis after taking advice from the actuary.

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

	2015 £'000	2014 £'000	2013 £'000
Present value of Scheme liabilities	**(298,812)**	(309,067)	(262,900)
Fair value of Scheme assets	**302,239**	312,516	258,553
Net amount recognised at year end (before any adjustments for deferred tax)	**3,427**	3,449	(4,347)

The amounts recognised in comprehensive income were:

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 Statement of Comprehensive Income. Remeasurements of the net defined benefit surplus / (liability) are included in other comprehensive income.

	2015 £'000	2014 £'000
Net interest expense recognised in the Consolidated Income Statement	**506**	48
Remeasurements of the net liability:		
Return on scheme assets (excluding amount included in interest expense)	**14,164**	(46,766)
(Gain) / loss arising from changes in financial assumptions	**(5,063)**	44,242
Gain arising from changes in demographic assumptions	**(7,412)**	–
Experience loss / (gain)	**2,177**	(720)
Charge / (credit) recorded in other comprehensive income	**3,866**	(3,244)
Total defined benefit charge / (credit)	**4,372**	(3,196)

18 Employee benefits *continued*

The principal actuarial assumptions used were:

	2015 £'000	2014 £'000
Liability discount rate	**3.70%**	3.60%
Inflation assumption – RPI	**3.10%**	3.10%
Inflation assumption – CPI	**2.10%**	2.10%
Rate of increase in salaries	**n/a**	n/a
Revaluation of deferred pensions	**2.10%**	2.10%
Increases for pensions in payment:		
CPI pension increases (maximum 5% pa)	**2.10%**	2.10%
CPI pension increases (maximum 5% pa, minimum 3% pa)	**3.10%**	3.10%
CPI pension increases (maximum 3% pa)	**2.00%**	2.00%
Proportion of employees opting for early retirement	**0%**	0%
Proportion of employees commuting pension for cash	**50.0%**	50.0%
Mortality assumption – before retirement	**Same as post retirement**	Same as post retirement
Mortality assumption – after retirement (males)	**S2PMA tables**	S1PMA tables
Loading	**105%**	105%
Projection basis	**Year of birth**	Year of birth
	CMI_2015 1.0%	CMI_2012 1.0%
Mortality assumption – after retirement (females)	**S2PFA tables**	S1PFA tables
Loading	**105%**	105%
Projection basis	**Year of birth**	Year of birth
	CMI_2015 1.0%	CMI_2012 1.0%
Future expected lifetime of current pensioner at age 65:		
Male aged 65 at year end	**86.5**	86.9
Female aged 65 at year end	**88.5**	89.2
Future expected lifetime of future pensioner at age 65:		
Male aged 45 at year end	**87.7**	88.3
Female aged 45 at year end	**89.8**	90.7

Notes to the Consolidated Financial Statements *continued*

18 Employee benefits *continued*

Changes in the present value of assets over the year

	2015 £'000	2014 £'000
Fair value of assets at start of the year	**312,516**	258,553
Interest income	**11,120**	11,833
Return on assets (excluding amount included in net interest expense)	**(14,164)**	46,766
Assets distributed on settlement	**(1,508)**	–
Contributions from the employer	**4,350**	4,600
Benefits paid	**(9,332)**	(9,236)
Administration expenses	**(743)**	–
Fair value of assets at end of the year	**302,239**	312,516
Actual return on assets over the year	**(3,044)**	58,599

Changes in the present value of liabilities over the year

	2015 £'000	2014 £'000
Liabilities at start of the year	**309,067**	262,900
Interest cost	**10,930**	11,881
Remeasurement (gains) / losses:		
Actuarial (gains) / losses arising from changes in financial assumptions	**(5,063)**	44,242
Actuarial gains arising from changes in demographic assumptions	**(7,412)**	–
Other experience gains	**2,177**	(720)
Liabilities extinguished on settlements	**(1,555)**	–
Benefits paid	**(9,332)**	(9,236)
Liabilities at end of the year	**298,812**	309,067

The split of the Scheme's liabilities by category of membership is as follows:

	2015 £'000	2014 £'000
Deferred pensioners	**154,905**	161,195
Pensioners in payment	**143,907**	147,872
	298,812	309,067
Average duration of the Scheme's liabilities at the end of the year (in years)	**18**	18

18 Employee benefits *continued*

The major categories of Scheme assets are as follows:

	2015 £'000	2014 £'000
Return-seeking assets		
UK equities	**30,928**	35,997
Overseas equities	**14,863**	14,534
Other equity type investments	**39,827**	39,729
Total return-seeking assets	**85,618**	90,260
Other		
Insured pensioners	**1,183**	1,396
Cash	**711**	2,443
Liability-driven investments	**214,727**	218,417
Total matching assets	**216,621**	222,256
Total market value of assets	**302,239**	312,516

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 2016.

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 £4.9 million (increase by £5.1 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 £1.7 million (decrease by £1.7 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 £10.5 million (decrease by £10.6 million) if all the other assumptions remained unchanged.

Share-based payments

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

The LTIP was replaced in 2014 by the Management Incentive Plan ("MIP") and accordingly no further share-based payment awards were made during the year ended 31 December 2015 under the LTIP. The LTIP awards made in respect of the 2013 and 2014 scheme years provide for the award of Performance Shares. Performance Shares may be awarded to participants without requiring a qualifying investment, and are subject to the achievement of a 3-year performance target. The awards lapse if the performance target is not met over the 3-year vesting period. Performance Share awards are dependent on an improvement in reported earnings per share and operating cash flow, each measured using IFRSs. The Remuneration Committee may exercise its discretion with regard to the effect of one-off items. Details of the performance criteria applicable to 2013 and 2014 LTIP awards are set out in the Remuneration Report on pages 46 to 60.

Notes to the Consolidated Financial Statements *continued*

18 Employee benefits *continued*

Share-based payments *continued*

Marshalls plc 2005 Long Term Incentive Plan (the "LTIP") *continued*

The Performance Shares take the form of options which are settled by physical delivery of shares. The exercise price is £nil in relation to any of these grants and there is no entitlement to dividends during the vesting period. There are no market conditions associated with these instruments.

	Number of instruments	Date of grant	Vesting period
Equity settled awards granted to Directors of Marshalls plc	243,412	10 September 2013	3 years
	222,124	1 April 2014	3 years
	115,676	2 October 2014	3 years
Equity settled awards granted to other employees	683,147	17 April 2013	3 years
	368,667	1 April 2014	3 years
	14,120	29 April 2014	3 years

	Weighted average share price at date of grant (pence per share) 2015	**Number of options 2015**	Weighted average share price at date of grant (pence per share) 2014	Number of options 2014
Outstanding at 1 January	**137**	**3,770,513**	116	5,570,167
Granted	**–**	**–**	182	1,149,818
Lapsed	**137**	**(615,072)**	113	(1,249,946)
Exercised	**115**	**(1,508,295)**	112	(1,699,526)
Outstanding at 31 December	**141**	**1,647,146**	137	3,770,513

None of the options were exercisable at 31 December 2015.

The fair value of services received in return for shares granted is measured by reference to the fair value of these awards at the date of grant. The estimate of the fair value of the services received is measured based on a Black-Scholes valuation model.

	2 October 2014 grant	29 April 2014 grant	1 April 2014 grant	10 September 2013 grant	17 April 2013 grant
Fair value at grant date (pence per share)	181	160	166	60	106
Share price on date of grant (pence per share)	199	176	180	173	127
Expected volatility used in the modelling under the Black-Scholes valuation model	65.0%	65.0%	65.0%	65.0%	65.0%
Dividend yield	3.0%	3.0%	3.0%	3.0%	4.0%
Risk-free interest rate (based on national Government bonds)	2.0%	2.0%	2.0%	2.0%	2.0%

The Company's share price at 31 December 2015 was 325 pence.

The expected volatility is wholly based on the historic volatility, adjusted for any expected changes to future volatility due to publicly available information.

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

	2015 £'000	2014 £'000
Awards granted and total expense recognised as employee costs	**710**	1,551

Performance Incentive Plan ("PIP")

The PIP was a 3-year incentive scheme introduced in 2011 which terminated in 2014. Deferred balances in the form of shares carried over from the final year of the PIP vested as share-based payment awards in March 2015 in accordance with the rules of the PIP. There are no outstanding awards under the PIP at 31 December 2015.

18 Employee benefits *continued*

Share-based payments *continued*

Performance Incentive Plan ("PIP") *continued*

Equity settled awards under the PIP are settled by physical delivery of shares.

	Value £'000	**Number of options 2015**	Value £'000	Number of options 2014
Outstanding at 1 January	**2,158**	**922,281**	1,588	901,101
Granted	**–**	**–**	–	–
Change in value of notional shares	**–**	**–**	570	21,180
Element released	**(2,158)**	**(922,281)**	–	–
Outstanding at 31 December	**–**	**–**	2,158	922,281

The total expenses recognised for the year arising from share-based payments were as follows:

	2015 £'000	2014 £'000
Awards granted and total expense recognised as employee costs	**–**	523

Management Incentive Plan ("MIP")

Share-based payment awards have been made during the year in accordance with the rules of the MIP. Full details of the performance criteria and the basis of operation of the MIP are set out in the Remuneration Report on pages 46 to 60.

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	344,517	1,120	11 April 2014	4 years
Equity settled awards granted to former Directors of Marshalls plc	–	–	11 April 2014	4 years
Equity settled awards granted to other employees	475,423	1,545	11 April 2014	4 years
Equity settled awards granted to Directors of Marshalls plc	349,068	1,134	10 March 2015	3 years
Equity settled awards granted to former Directors of Marshalls plc	58,224	189	10 March 2015	3 years
Equity settled awards granted to other employees	466,407	1,516	10 March 2015	3 years
	1,693,639	5,504		

Analysis of closing balance (deferred into shares):

	£'000	Shares
Equity settled awards granted to Directors of Marshalls plc	2,254	693,585
Equity settled awards granted to former Directors of Marshalls plc	189	58,224
Equity settled awards granted to other employees	3,061	941,830
	5,504	1,693,639

	Value £'000	**Number of options 2015**	Value £'000	Number of options 2014
Outstanding at 1 January	**3,344**	**1,429,056**	–	–
Granted	**2,839**	**873,699**	3,344	1,429,056
Change in value of notional shares	**415**	**(141,494)**	–	–
Lapsed	**(296)**	**(126,410)**	–	–
Element released	**(798)**	**(341,212)**	–	–
Outstanding at 31 December	**5,504**	**1,693,639**	3,344	1,429,056

Notes to the Consolidated Financial Statements *continued*

18 Employee benefits *continued*

Share-based payments *continued*

Management Incentive Plan ("MIP") *continued*

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

	2015 £'000	2014 £'000
Awards granted and total expense recognised as employee costs	**2,858**	2,471

Further details in relation to the Directors are set out in the Remuneration Report on pages 46 to 60.

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 year ended 31 December 2015. 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. The first awards will be made to participants following publication of the Group's 2015 results. The total expenses recognised for the year arising from share-based payments were £54,000 (2014: £nil).

All-employee Sharesave ("SAYE") scheme

On 5 October 2015 options were granted over 1,000,000 shares to employees who had subscribed to the SAYE scheme. The option price is 291 pence, a discount of 20 per cent to the market price on the date of grant. The option is exercisable by relevant employees after a period of 3 years.

Employee profit sharing scheme

At 31 December 2015 the scheme held 42,370 (2014: 42,370) Ordinary Shares in the Company.

19 Deferred taxation

Recognised deferred taxation assets and liabilities

	Assets		Liabilities	
	2015 £'000	2014 £'000	2015 £'000	2014 £'000
Property, plant and equipment	**–**	–	**(11,334)**	(12,934)
Intangible assets	**–**	–	**(283)**	(315)
Inventories	**–**	–	**(427)**	(450)
Employee benefits	**–**	–	**(617)**	(690)
Equity settled share-based payments	**1,316**	1,394	**–**	–
Other items	**–**	–	**(964)**	(577)
Tax assets / (liabilities)	**1,316**	1,394	**(13,625)**	(14,966)

The 2015 Summer Budget on 8 July 2015 announced that the UK corporation tax rate will reduce to 18 per cent by 2020. Reductions in the rate to 19 per cent (effective April 2017) and 18 per cent (effective April 2020) were substantially enacted, following the receipt of Royal Assent, in November 2015. This will reduce the Group's future current tax charge accordingly. The deferred taxation liability at 31 December 2015 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 £617,000 (2014: £690,000) in relation to employee benefits is in respect of the net surplus for the defined benefit obligations of £3,427,000 (2014: £3,449,000 net surplus) (Note 18) calculated at 18 per cent (2014: 20 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 2015

	1 January 2015 £'000	Recognised in income £'000	Recognised in other comprehensive income £'000	Recognised in statement of changes in equity £'000	**31 December 2015 £'000**
Property, plant and equipment	(12,934)	1,600	–	–	**(11,334)**
Intangible assets	(315)	32	–	–	**(283)**
Inventories	(450)	23	–	–	**(427)**
Employee benefits	(690)	(700)	773	–	**(617)**
Equity settled share-based payments	1,394	(73)	–	(5)	**1,316**
Impact on other comprehensive income of the change in rate of deferred tax	367	–	(375)	8	**–**
Other items	(944)	184	(209)	5	**(964)**
	(13,572)	1,066	189	8	**(12,309)**

Year ended 31 December 2014

	1 January 2014 £'000	Recognised in income £'000	Recognised in other comprehensive income £'000	Recognised in statement of changes in equity £'000	31 December 2014 £'000
Property, plant and equipment	(13,206)	272	–	–	(12,934)
Intangible assets	(335)	20	–	–	(315)
Inventories	(500)	50	–	–	(450)
Employee benefits	869	(910)	(649)	–	(690)
Equity settled share-based payments	757	177	–	460	1,394
Impact on other comprehensive income of the change in rate of deferred tax	367	–	–	–	367
Other items	(1,556)	29	583	–	(944)
	(13,604)	(362)	(66)	460	(13,572)

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 2015 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.

Notes to the Consolidated Financial Statements *continued*

20 Capital and reserves

Called-up share capital

	Issued and paid up	
	2015 £'000	2014 £'000
At 1 January and at 31 December	**49,845**	49,845
Number of 25 pence Ordinary Shares	**199,378,755**	199,378,755

Consolidation reserve

On 8 July 2004 Marshalls plc was introduced as the new holding company of the Group by way of a court-approved Scheme of Arrangement under Section 425 of the Companies Act 1985. The restructuring was accounted for as a capital reorganisation and accounting principles were applied as if the Company had always been the holding company of the Group. The difference between the aggregate nominal value of the new shares issued by the Company and the called-up share capital, capital redemption reserve and share premium account of Marshalls Group plc (the previous holding company) was transferred to a consolidation reserve.

Hedging reserve

This represents the gains and losses arising on derivatives used for cash flow hedging, principally from the Group's interest rate swaps, energy price contracts and forward exchange contracts.

Dividends

After the balance sheet date the following dividends were proposed by the Directors. The dividends have not been provided and there were no income tax consequences.

	2015 £'000	2014 £'000
4.75 pence final dividend (2014: 4.00 pence) per Ordinary Share	**9,470**	7,975
2.00 pence supplementary dividend per Ordinary Share	**3,988**	–
	13,458	7,975

21 Non-controlling interests

	2015 £'000	2014 £'000
Non-controlling interests		
At 1 January	**1,475**	3,295
Share of result for the year	**(258)**	(1,634)
Foreign currency transaction differences	**(78)**	(186)
At 31 December	**1,139**	1,475

22 Analysis of net debt

	1 January 2015 £'000	Cash flow £'000	Other changes £'000	**31 December 2015 £'000**
Cash at bank and in hand	20,320	4,679	(9)	**24,990**
Debt due after 1 year	(50,307)	13,191	991	**(36,125)**
Finance leases	(493)	159	7	**(327)**
	(30,480)	18,029	989	**(11,462)**

22 Analysis of net debt *continued*

Reconciliation of net cash flow to movement in net debt

	2015 £'000	2014 £'000
Net increase in cash equivalents	**4,679**	2,711
Cash outflow from decrease in debt and lease financing	**13,350**	1,552
Effect of exchange rate fluctuations	**989**	826
Movement in net debt in the year	**19,018**	5,089
Net debt at 1 January	**(30,480)**	(35,569)
Net debt at 31 December	**(11,462)**	(30,480)

23 Operating leases

The Group had non-cancellable minimum lease payments to be paid in respect of operating leases on property, plant, machinery and vehicles as follows:

31 December 2015	Total £'000	6 months or less £'000	6 – 12 months £'000	1 – 2 years £'000	2 – 5 years £'000	More than 5 years £'000
Expiring:						
Within 1 year	**336**	**277**	**59**	**–**	**–**	**–**
Between 1 and 5 years	**21,833**	**3,768**	**3,748**	**6,855**	**7,462**	**–**
In more than 5 years	**51,857**	**2,767**	**2,751**	**5,526**	**16,740**	**24,073**
	74,026	**6,812**	**6,558**	**12,381**	**24,202**	**24,073**

31 December 2014	Total £'000	6 months or less £'000	6 – 12 months £'000	1 – 2 years £'000	2 – 5 years £'000	More than 5 years £'000
Expiring:						
Within 1 year	749	564	185	–	–	–
Between 1 and 5 years	20,252	3,147	3,129	5,647	8,329	–
In more than 5 years	48,806	2,221	2,209	4,429	12,887	27,060
	69,807	5,932	5,523	10,076	21,216	27,060

The minimum lease payments under non-cancellable operating leases (above) comprise property of £28,482,000 (2014: £29,134,000) and plant, machinery and vehicles of £45,544,000 (2014: £40,673,000).

Certain leased properties have been sublet by the Group. Sublease payments of £89,663 (2014: £89,913) are expected to be received during the following financial year. An amount of £89,663 (2014: £121,014) was recognised as income in the Consolidated Income Statement within net operating costs in respect of subleases.

Notes to the Consolidated Financial Statements *continued*

24 Contingencies

Royal Bank of Scotland plc has issued, on behalf of Marshalls plc, the following irrevocable letters of credit relating to the Group's cap on self insurance for employer's liability and vehicle insurance:

Beneficiary	Amount	Period	Purpose
XL Winterthur	£300,000	19 Dec 2003 to 31 Oct 2016	Employer's liability
Mitsui Sumitomo Insurance (London Management) Limited	£865,000	23 Dec 2011 to 31 Oct 2016	Employer's liability
Aviva Insurance Limited	£350,000	19 Mar 2014 to 31 Oct 2016	Vehicle insurance

25 Related parties

Identity of related parties

The Group has a related party relationship with its Directors.

Transactions with key management personnel

Other than the Directors, there are no senior managers in the Group who are relevant for establishing that Marshalls has the appropriate expertise and experience for the management of its business.

Directors of the Company and their immediate relatives control 0.0135 per cent (2014: 0.0003 per cent) of the voting shares of the Company.

In addition to their salaries and pension allowances, the Group also provides non-cash benefits to Directors. Further details in relation to Directors are disclosed in the Remuneration Report on pages 46 to 60.

26 Accounting estimates and judgements

Management discussed with the Audit Committee the development, selection and disclosure of the Group's critical accounting policies and estimates and the application of these policies and estimates. The accounting policies are set out in Note 1 on pages 76 to 84. As stated in the accounting policies revenue is disclosed net of rebates. The estimation of appropriate accruals for rebates requires commercial assessment.

Note 12 contains details of the Group's inventory. The carrying value of the Group's finished goods inventory has been reviewed using commercial judgement with regard to the assessment of the appropriate level of provisioning against inventory obsolescence.

Note 2 contains information about the assumptions and judgements made relating to the identification of operating segments for the Group as defined in IFRS 8 *"Operating Segments"*.

In relation to the Group's intangible fixed assets (Note 10) impairment tests have been undertaken using commercial judgement and a number of assumptions and estimates in relation to relevant trading volumes and margins. These estimates have been determined using the best available information derived from a combination of business-specific analysis (both current and historic) and the latest available external industry forecasts. Determining whether goodwill is impaired requires an estimation of the value in use of the CGUs to which goodwill has been allocated. The value in use calculation involves an estimation of the future cash flows of CGUs and also the selection of appropriate discount rates in order to calculate present values.

Note 18 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 18 on page 103.

Note 19 contains details of the Group's deferred taxation. Liabilities recognised are determined by reference to the likelihood of settlement and the likelihood that assets are received is based on assumptions of future actions.

Parent Company Statement of Changes in Equity
for the year ended 31 December 2015

	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 2015	**49,845**	**22,695**	**(6,689)**	**75,394**	**2,765**	**166,436**	**310,446**
Total comprehensive expense for the year							
Loss for the financial year	**–**	**–**	**–**	**–**	**–**	**(4,410)**	**(4,410)**
Total comprehensive expense for the year	**–**	**–**	**–**	**–**	**–**	**(4,410)**	**(4,410)**
Transactions with owners, recorded directly in equity							
Contributions by and distributions to owners							
Share-based payments	**–**	**–**	**–**	**–**	**1,359**	**843**	**2,202**
Deferred tax on share-based payments	**–**	**–**	**–**	**–**	**(2)**	**–**	**(2)**
Dividends to equity shareholders	**–**	**–**	**–**	**–**	**–**	**(12,291)**	**(12,291)**
Purchase of own shares	**–**	**–**	**(4,582)**	**–**	**–**	**–**	**(4,582)**
Disposal of own shares	**–**	**–**	**5,742**	**–**	**–**	**(5,742)**	**–**
Total contributions by and distributions to owners	**–**	**–**	**1,160**	**–**	**1,357**	**(17,190)**	**(14,673)**
Total transactions with owners of the Company	**–**	**–**	**1,160**	**–**	**1,357**	**(21,600)**	**(19,083)**
At 31 December 2015	**49,845**	**22,695**	**(5,529)**	**75,394**	**4,122**	**144,836**	**291,363**

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
Prior year							
At 1 January 2014 (restated)	49,845	22,695	(9,512)	75,394	1,595	187,803	327,820
Total comprehensive expense for the year							
Loss for the financial year	–	–	–	–	–	(4,908)	(4,908)
Total comprehensive expense for the year	–	–	–	–	–	(4,908)	(4,908)
Transactions with owners, recorded directly in equity							
Contributions by and distributions to owners							
Share-based payments	–	–	–	–	1,075	1,421	2,496
Deferred tax on share-based payments	–	–	–	–	95	–	95
Dividends to equity shareholders	–	–	–	–	–	(10,791)	(10,791)
Purchase of own shares	–	–	(4,266)	–	–	–	(4,266)
Disposal of own shares	–	–	7,089	–	–	(7,089)	–
Total contributions by and distributions to owners	–	–	2,823	–	1,170	(16,459)	(12,466)
Total transactions with owners of the Company	–	–	2,823	–	1,170	(21,367)	(17,374)
At 31 December 2014	49,845	22,695	(6,689)	75,394	2,765	166,436	310,446

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 2015

	Notes	2015 £'000	2014 £'000
Fixed assets			
Investments	30	**342,312**	340,953
Deferred taxation assets	31	**698**	806
		343,010	341,759
Current assets			
Debtors	32	**1,182**	1,343
Current liabilities			
Creditors	33	**(52,829)**	(32,656)
Net current liabilities		**(51,647)**	(31,313)
Net assets		**291,363**	310,446
Capital and reserves			
Called-up share capital	34	**49,845**	49,845
Share premium account		**22,695**	22,695
Own shares		**(5,529)**	(6,689)
Capital redemption reserve		**75,394**	75,394
Equity reserve		**4,122**	2,765
Profit and loss account		**144,836**	166,436
Equity shareholders' funds		**291,363**	310,446

Approved at a Directors' meeting on 11 March 2016.

On behalf of the Board:

Martyn Coffey
Chief Executive

Jack Clarke
Finance Director

The Notes on pages 113 to 118 form part of these Company Financial Statements.

Notes to the Company Financial Statements

27 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 2015 were authorised for issue by the Board of Directors on 11 March 2016. Marshalls plc is a public limited company that is incorporated, domiciled and has its registered office in England and Wales. The Company's Ordinary Shares are publicly traded on the London Stock Exchange and the Company is not under the control of any single shareholder.

These Financial Statements were prepared in accordance with Financial Reporting Standard 101 *"Reduced Disclosure Framework"* ("FRS 101").

No profit or loss is presented by the Company as permitted by Section 408 of the Companies Act 2006.

(b) Basis of preparation

The Company has 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 2015.

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 requirement of IFRS 7 *"Financial Instruments: Disclosures"*;
- the requirement of paragraphs 91 – 99 of IFRS 13 *"Fair Value Measurement"*;
- the requirement in paragraph 38 of IAS 1 *"Presentation of Financial Statements"* to present comparative information in respect of: paragraph 79(a)(iv) of IAS 1;
- the requirements of paragraphs 10(d), 10(f), 16, 39(c), 40A, 40B, 40C, 40D, 111 and 134 – 136 of IAS 1 *"Presentation of Financial Statements"*;
- the requirements of IAS 7 *"Statement of 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"*.

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

(ii) Dividends

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

Notes to the Company Financial Statements *continued*

27 Accounting policies *continued*

(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 18 on pages 99 to 103.

(ii) Defined contribution scheme

Obligations for contributions to defined contribution schemes are recognised as an expense as incurred.

(f) Share-based payment transactions

The Company enters into equity settled share-based payment transactions with its employees. In particular, annual awards are made to employees under the Company's Management Incentive Plan ("MIP") and, in previous years, the Performance Incentive Plan ("PIP") and the 2005 Long Term Incentive Plan ("LTIP").

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

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

(g) Own shares held by the Employee Benefit Trust

Transactions of the Company-sponsored Employee Benefit Trust are included in the Group Financial Statements. In particular, the Trust's purchases of shares in the Company are debited directly to equity.

(h) Trade and other payables

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

(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.

28 Operating costs

The audit fee for the Company was £20,000 (2014: £20,000). This is in respect of the audit of the Financial Statements. Fees paid to the Company's auditor for services other than the statutory audit of the Company are not disclosed in the Notes to the Company Financial Statements since the consolidated accounts of the Group are required to disclose non-audit fees on a consolidated basis.

Details of Directors' remuneration, share options, long-term incentive plans and Directors' pension entitlements are disclosed on pages 46 to 60 of the Annual Remuneration Report.

29 Ordinary dividends: equity shares

	2015		2014	
	pence per share	**£'000**	pence per share	£'000
2014 final: paid 3 July 2015	**4.00p**	**7,866**	3.50p	6,867
2015 interim: paid 4 December 2015	**2.25p**	**4,425**	2.00p	3,924
	6.25p	**12,291**	5.50p	10,791

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.

	2015 £'000	2014 £'000
2015 final: 4.75 pence (2014: 4.00 pence) per Ordinary Share	**9,470**	7,975
2015 supplementary: 2.00 pence per Ordinary Share	**3,988**	–
	13,458	7,975

30 Investments

	£'000
At 1 January 2015	340,953
Additions	1,359
At 31 December 2015	**342,312**

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 £1,359 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 principal subsidiary undertakings of Marshalls plc at 31 December 2015 are set out below. With the exception of Marshalls NV, Xiamen Marshalls Import Export Company Limited, Marshalls Landscape Products (North America) Inc. and Marshalls Landscape Products FZE, all the companies operate within the United Kingdom and are registered in England and Wales. Marshalls NV is registered in Belgium. Xiamen Marshalls Import Export Company Limited is registered in China, Marshalls Landscape Products (North America) Inc. is registered in the USA and Marshalls Landscape Products FZE is registered in Dubai.

Subsidiaries	Principal activities	Class of share	% ownership
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
Dalestone Concrete Products 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	Non-trading	Ordinary	100
Marshalls Concrete Products Limited	Non-trading	Ordinary	100

Notes to the Company Financial Statements *continued*

30 Investments *continued*

Subsidiaries	Principal activities	Class of share	% ownership
Marshalls Directors Limited	Non-trading	Ordinary	100
Marshalls Dormant No. 30 Limited	Non-trading	Ordinary	100
Marshalls Dormant No. 31 Limited	Non-trading	Ordinary	100
Marshalls EBT Limited*	Non-trading	Ordinary	100
Marshalls Estates Limited	Non-trading	Ordinary	100
Marshalls Group Limited*	Intermediate holding company	Ordinary	100
Marshalls Landscape Products Limited	Non-trading	Ordinary	100
Marshalls Landscape Products FZE	Landscape products supplier	Ordinary	100
Marshalls Landscape Products (North America) Inc.	Landscape products supplier	Ordinary	100
Marshalls Mono Limited	Landscape products manufacturer and supplier and quarry owner supplying a wide variety of paving, street furniture and natural stone products	Ordinary	100
Marshalls Natural Stone Limited	Non-trading	Ordinary	100
Marshalls NV	Landscape products manufacturer and supplier	Ordinary	66.7
Marshalls Profit Sharing Scheme Limited	Non-trading	Ordinary	100
Marshalls Properties Limited	Non-trading	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
Premier Mortars Limited	Non-trading	Ordinary	100
Quarryfill Limited	Non-trading	Ordinary	100
Rhino Protec Limited	Non-trading	Ordinary	100
Robinson Associates Stone Consultants Limited	Non-trading	Ordinary	100
Robinsons Greenhouses Limited	Non-trading	Ordinary	100
Rockrite Limited	Non-trading	Ordinary	100
S Marshall & Sons Limited	Non-trading	Ordinary	100
Scenic Blue Limited	Non-trading	Ordinary	100
Scenic Blue Landscape Franchise Limited	Non-trading	Ordinary	100
Scenic Blue (UK) Limited	Non-trading	Ordinary	100
Stancliffe Stone Company Limited	Non-trading	Ordinary	100
Stoke Hall Quarry Limited*	Non-trading	Ordinary	100
Stone Shippers Limited	Non-trading	Ordinary	100
Stonemarket (Concrete) Limited	Non-trading	Ordinary	100
Stonemarket Limited	Non-trading	Ordinary	100
The Great British Bollard Company Limited	Non-trading	Ordinary	100
The Stancliffe Group Limited	Non-trading	Ordinary	100
The Yorkshire Brick Co. Limited	Non-trading	Ordinary	100
Town & Country Paving Limited	Non-trading	Ordinary	100
Urban Engineering Limited	Non-trading	Ordinary	100
Woodhouse Group Limited	Non-trading	Ordinary	100
Woodhouse UK Limited	Non-trading	Ordinary	100
Xiamen Marshalls Import Export Company Limited	Sourcing and distribution of natural stone products	Ordinary	100

* Held by Marshalls plc. All others held by subsidiary undertakings.

30 Investments *continued*

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.

31 Deferred taxation

Recognised deferred taxation assets and liabilities

	Assets		Liabilities	
	2015 £'000	2014 £'000	**2015 £'000**	2014 £'000
Equity settled share-based payments	**698**	806	**–**	–

Movement in temporary differences

	1 January 2015 £'000	Recognised in income £'000	Recognised in other comprehensive income £'000	**31 December 2015 £'000**
Year ended 31 December 2015				
Equity settled share-based payments	806	(106)	(2)	**698**

32 Debtors

	2015 £'000	2014 £'000
Corporation tax	**1,182**	1,343

No debtors were due after more than 1 year.

33 Creditors

	2015 £'000	2014 £'000
Amounts owed to subsidiary undertakings	**52,829**	32,656

34 Capital and reserves

Called-up share capital

As at 31 December 2015, the issued and fully paid up share capital was as follows:

	Issued and paid up			
	2015 Number	**2015 nominal value £'000**	2014 Number	2014 nominal value £'000
At 31 December	**199,378,755**	**49,845**	199,378,755	49,845

Equity reserve

The equity reserve represents the number of shares expected to vest in respect of share-based payment awards granted to employees of the Company.

35 Capital and leasing commitments

The Company had no capital or leasing commitments at 31 December 2015 or 31 December 2014.

36 Bank facilities

The Group's banking arrangements are in respect of Marshalls plc, Marshalls Group Limited and Marshalls Mono Limited with each company being nominated borrowers. The operational banking activities of the Group are undertaken by Marshalls Group Limited and the Group's bank debt is largely included in Marshalls Group Limited's balance sheet.

Notes to the Company Financial Statements *continued*

37 Contingent liabilities

Royal Bank of Scotland plc has issued, on behalf of Marshalls plc, the following irrevocable letters of credit relating to the Group's cap on self insurance for employer's liability and vehicle insurance.

Beneficiary	Amount	Period	Purpose
XL Winterthur	£300,000	19 Dec 2003 to 31 Oct 2016	Employer's liability
Mitsui Sumitomo Insurance (London Management) Limited	£865,000	23 Dec 2011 to 31 Oct 2016	Employer's liability
Aviva Insurance Limited	£350,000	19 Mar 2014 to 31 Oct 2016	Vehicle insurance

38 Pension scheme

The Company is the sponsoring employer of the Marshalls plc pension scheme (the "Scheme") which has both a defined benefit and a defined contribution section. The assets of the Scheme are held in separately managed funds which are independent of the Group's finances.

Full details of the Scheme are provided in Note 18. 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 2015 Financial Statements by a qualified independent actuary. Active employees are members of the defined contribution section of the Scheme, which invests funds in which the contributions for each individual member are separately identifiable and the benefits calculated accordingly.

39 Accounting estimates and judgements

The preparation of the Financial Statements requires management to make judgements, estimates and assumptions. Although these judgements and estimates are based on management's best knowledge, actual results ultimately may differ from these estimates.

The key sources of estimation uncertainty that have a significant risk of causing material adjustments to the carrying value of assets and liabilities within the next financial year are disclosed below.

Note 18 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 18 on page 103.

Note 31 contains details of the Company's deferred taxation. Liabilities recognised are determined by reference to the likelihood of settlement and the likelihood that assets are received is based on assumptions of future actions.

40 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 to 31 December 2011* £'000	Year to 31 December 2012*** £'000	Year to 31 December 2013* £'000	Year to 31 December 2014 £'000	**Year to 31 December 2015 £'000**
Consolidated Income Statement					
Revenue	325,112	300,938	307,390	358,516	**386,204**
Net operating costs	(310,117)	(288,087)	(291,300)	(333,211)	**(348,752)**
Operating profit (before operational restructuring and works closure costs, goodwill and intangible asset impairments)	14,995	12,851	16,090	25,305	**37,452**
Operational restructuring and works closure costs, goodwill and intangible asset impairments	–	(21,521)	–	–	**–**
Operating profit / (loss)	14,995	(8,670)	16,090	25,305	**37,452**
Financial income and expenses (net)	(3,007)	(3,578)	(3,064)	(2,884)	**(2,174)**
Profit before tax (before operational restructuring and works closure costs, goodwill and intangible asset impairments)	11,988	9,273	13,026	22,421	**35,278**
Profit / (loss) before tax	11,988	(12,248)	13,026	22,421	**35,278**
Income tax (expense) / credit	(1,071)	5,874	(67)	(4,198)	**(7,387)**
Profit / (loss) for the financial year before post-tax profit / (loss) of discontinued operations	10,917	(6,374)	12,959	18,223	**27,891**
Post-tax (loss) / profit of discontinued operations	(3,661)	676	503	–	**–**
Profit / (loss) for the financial year	7,256	(5,698)	13,462	18,223	**27,891**
Profit / (loss) for the year attributable to:					
Equity shareholders of the Parent	7,390	(5,684)	14,096	19,857	**28,149**
Non-controlling interests	(134)	(14)	(634)	(1,634)	**(258)**
	7,256	(5,698)	13,462	18,223	**27,891**
EBITA	16,174	(7,423)	17,028	26,536	**38,774**
EBITDA	32,413	6,538	30,227	38,518	**51,828**
EBITA before operational restructuring and works closure costs, goodwill and intangible asset impairments	16,174	14,098**	17,028	26,536	**38,774**
EBITDA before operational restructuring and works closure costs, goodwill and intangible asset impairments	32,413	28,059**	30,227	38,518	**51,828**
Earnings per share (pence):					
Basic (continuing operations)	5.66	(3.26)	6.94	10.13	**14.32**
Basic (total operations)	3.78	(2.91)	7.20	10.13	**14.32**
Basic continuing operations (before operational restructuring and works closure costs, goodwill and intangible asset impairments)	5.66	5.52**	6.94	10.13	**14.32**
Dividends per share (pence) – IFRS	5.25	5.25	5.25	5.50	**6.25**
Dividend cover (times) – IFRS (continuing)	1.1	1.1**	1.3	1.8	**2.3**
Dividends per share (pence) – traditional	5.25	5.25	5.25	6.00	**7.00**
Dividends per share (pence) – supplementary	–	–	–	–	**2.00**
Dividend cover (times) – traditional (continuing)	1.1	1.1**	1.3	1.7	**2.0**
Year-end share price (pence)	90.5	97.5	176.25	234.0	**325.0**
Tax rate (%)	8.9	(16.3)**	0.5	18.7	**20.9**

* The comparatives have been restated in respect of discontinued operations.

** Before operational restructuring and works closure costs, goodwill and intangible asset impairments.

Financial History – Consolidated Group *continued*

	2011 £'000	2012 £'000	2013 £'000	2014 £'000	**2015** **£'000**
Consolidated Balance Sheet					
Non-current assets	249,271	225,882	198,082	195,951	**192,815**
Current assets	128,640	116,735	120,832	132,593	**137,017**
Total assets	377,911	342,617	318,914	328,544	**329,832**
Current liabilities	(88,550)	(64,440)	(74,137)	(80,969)	**(87,071)**
Non-current liabilities	(83,297)	(94,603)	(69,345)	(65,681)	**(50,043)**
Net assets	206,064	183,574	175,432	181,894	**192,718**
Net borrowings	(77,101)	(63,543)	(35,569)	(30,480)	**(11,462)**
Gearing ratio	37.4%	34.6%	20.3%	16.8%	**6.0%**

Shareholder Information

Shareholder analysis at 31 December 2015

Size of shareholding	Number of shareholders	%	Number of Ordinary Shares	%
1 to 500	1,900	41.88	276,233	0.14
501 to 1,000	553	12.19	420,043	0.21
1,001 to 2,500	717	15.80	1,226,199	0.62
2,501 to 5,000	510	11.24	1,821,249	0.91
5,001 to 10,000	332	7.32	2,380,354	1.19
10,001 to 25,000	190	4.19	3,012,831	1.51
25,001 to 100,000	161	3.55	8,453,382	4.24
100,001 to 250,000	69	1.52	10,568,774	5.30
250,001 to 500,000	34	0.75	12,574,807	6.31
500,001 and above	71	1.56	158,644,883	79.57
	4,537	100.00	199,378,755	100.00

Financial calendar

Preliminary announcement of results for the year ended 31 December 2015	Announced	11 March 2016
Annual General Meeting		18 May 2016
Final dividend for the year ended 31 December 2015	Payable	8 July 2016
Half-yearly results for the year ending 31 December 2016	Announcement	26 August 2016
Half-yearly dividend for the year ending 31 December 2016	Payable	6 December 2016
Results for the year ending 31 December 2016	Announcement	Early March 2017

Advisers

Stockbrokers
Peel Hunt
Numis Securities Limited

Auditor
Deloitte LLP

Legal advisers
Herbert Smith LLP
Eversheds LLP
Pinsent Masons LLP

Financial advisers
N M Rothschild & Sons Limited

Bankers
Royal Bank of Scotland plc
Lloyds TSB Bank plc
HSBC Bank plc

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

Marshalls

Marshalls plc, Landscape House,
Premier Way, Lowfields Business Park,
Elland HX5 9HT

CERTIFIED CARBON NEUTRAL® publication
CarbonNeutral.com

FSC® www.fsc.org
MIX
Paper from responsible sources
FSC® C001785

The Group's commitment to environmental issues is reflected in this Annual Report which has been printed on Symbol Freelife Satin which is a mixed source FSC® certified and ECF (Elemental Chlorine Free) material. This is a certified CarbonNeutral® publication. Printed in the UK by Park Communications, using their environmental printing technology; vegetable inks were used throughout. Both the manufacturing mill and the printer are registered to the Environmental Management System ISO14001 and are Forest Stewardship Council® (FSC) chain-of-custody certified.

Marshalls plc Annual Report and Accounts 2015