Marshalls

Creating Better Spaces

Accounting Policies

Significant accounting policies
Marshalls plc (the "Company") is a public company limited by shares, incorporated in the United Kingdom under the Companies Act, and is registered in England and Wales. The Consolidated Financial Statements of the Company for the year ended 31 December 2020 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 2021. The Company's registered address is Landscape House, Premier Way, Lowfields Business Park, Elland HX5 9HT.

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

The Consolidated Financial Statements have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and International Financial Reporting Standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union. The Group has applied all accounting standards and interpretations issued by the IASB and International Financial Reporting Committee relevant to its operations and which are effective in respect of these Financial Statements.

Adoption of new standards in 2020
The accounting policies have been applied consistently throughout the Group for the purpose of the Consolidated Financial Statements.

The following other standards, interpretations and amendments to existing standards became effective on 1 January 2020 and have not had a material impact on the Group:

- Amendments to IAS 1 and IAS 8 – *"Definition of Material"*;
- Amendments to IFRS 3 – "*Definition of a Business*";
- Amendments to IFRS 9, IAS 39 and IFRS 7 – "*Interest Rate Benchmark Reform";*
- Amendments to IFRS 16 "*Leases*" in relation to COVID-19 related rent concessions; and
- Amendments to References to the Conceptual Framework in IFRS Standards.

The following other standards, interpretations and amendments to existing standards have been issued but were not mandatory for accounting periods beginning 1 January 2020 and are not expected to have a material impact on the Group.

- IFRS 17 *"Insurance Contracts"*, effective from 1 January 2021;
- Amendments to IFRS 10 and IAS 28 – *"Sale or Contribution of Assets between an Investor and its Associate or Joint Venture"*, effective date deferred indefinitely;
- Amendments to IAS 1 – "*Classification of Liabilities as Current or Non-current*";
- Amendments to IFRS 3 – "*Reference to the Conceptual Framework*";
- Amendments to IFRS 16 – "*Property, Plant and Equipment – Proceeds before Intended Use*";
- Amendments to IFRS 37 – "*Onerous Contracts – Cost of Fulfilling a Contract*"; and
- Annual Improvements to IFRS Standards 2018 – 2020 cycle - Amendments to IFRS 1 "*First-time Adoption of International Financial Reporting Standards*", IFRS 9 "*Financial Instruments*", IFRS 16 "*Leases*", and IAS 41 "*Agriculture*".

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.

(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.

(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. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are also set out in the Strategic Report.

On 1 May 2020, the Group signed agreements with each of NatWest, Lloyds and HSBC for an additional £30 million, twelve-month committed revolving credit facility with each. These additional facilities totalled £90 million and significantly strengthened the Group's headroom. Including these additional facilities, Marshalls has total bank facilities of £255 million, of which £230 million are committed. Temporary covenant waivers have been established for the period to 30 June 2021, during which there is an ongoing agreement with each partner bank that net debt (excluding lease liabilities under IFRS 16) will not exceed £200 million. In addition, the Group established a facility line with the COVID-19 Corporate Financing Facility ("CCFF") with an issuer limit of £200 million. The Group's on-demand overdraft facility is reviewed on an annual basis and the current arrangements were renewed and signed on 9 September 2020.

In assessing the appropriateness of adopting the going concern basis in the Consolidated Financial Statements, the Board reviewed a range of severe downside scenarios to stress test the further potential impact of COVID-19 and other uncertainties. The stress testing applied in 2020 has taken full account of COVID-19 and the continuing uncertainty over Brexit transition. After the lockdown at the end of March 2020, the Group prepared a series of downside scenario models in relation to revenue, profit and cash flow over a 2-year period. These models have been reviewed and updated during the last year, with additional sensitivities being applied against the Group's base medium-term forecast. The latest stress tests reviewed by the Board in relation to the completion of these Consolidated Financial Statements assumed a further sales revenue sensitivity of 20 per cent over each of the next two years, cumulatively 64 per cent against 2020 revenue. None of the stress tests applied impact the Directors' opinion that 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. However, the potential impact of wider political and economic uncertainties has been considered, including issues or delays as a consequence of the Brexit transition process and a reduction in consumer confidence due to a further slowdown in the UK economy. Based on current expectations and as consequence of significantly improved recent trading, the Group's latest cash forecasts continue to meet half year and year-end bank covenants and there is adequate headroom that is not dependent on facility renewals. At 31 December 2020, on a covenant test basis (pre-IFRS 16), the relevant ratios were comfortably achieved and were as follows:

- EBITA: interest charge – 10.2 times (covenant test requirement – to be greater than 2.5 times).
- Net debt: EBITDA – 0.6 times (covenant test requirement – to be less than 3.0 times).

After considering the risks associated with COVID-19 and other relevant uncertainties, the Directors believe that the Group is well placed to manage its business risks successfully. The Board considers that the facilities now available to the Group are sufficient to meet significant downside liquidity scenarios over a prolonged period and that there are sufficient unutilised facilities held which mature after 12 months. Accordingly, the Directors 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.

Other than in relation to “operational restructuring costs and asset impairments”, the accounting policies have been applied consistently throughout the Group for the purposes of these Consolidated Financial Statements and are also set out on the Company’s website (www.marshalls.co.uk/investor/financial-performance). Operational restructuring costs and asset impairments have been disclosed separately on the face of the Income Statement due to their scale and exceptional nature and to provide a better understanding of the Group’s results.

The Consolidated Financial Statements are presented in Sterling, rounded to the nearest thousand. Sterling is the currency of the primary economic environment in which the Group operates.

The preparation of Financial Statements in conformity with adopted IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. 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.

(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 three 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.

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

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

Classification and measurement
The classification of financial assets is based both on the business model within which the asset is held and the contractual cash flow characteristics of the asset. There are 3 principal classification categories for financial assets that are debt instruments: (i) amortised cost; (ii) fair value through other comprehensive income ("FVTOCI"); and (iii) fair value through profit or loss ("FVTPL"). Equity investments in scope of IFRS 9 are measured at fair value with gains and losses recognised in profit or loss unless an irrevocable election is made to recognise gains or losses in other comprehensive income. Under IFRS 9, derivatives embedded in financial assets are not bifurcated but instead the whole hybrid contract is assessed for classification.

Under IFRS 9, financial assets can be designated as at FVTPL to mitigate an accounting mismatch.

In respect to classification and measurement of financial liabilities, changes in the fair value of a financial liability designated as at FVTPL due to credit risk are presented in other comprehensive income unless such presentation would create or enlarge an accounting mismatch in profit or loss.

The change in the classification and measurement of listed redeemable notes has not had a material impact on the Group Financial Statements.

Impairment
Credit losses and expected credit losses are recognised in accordance with IFRS 9. The amount of expected credit losses is updated at each reporting date.

The IFRS 9 impairment model has been applied to the Group's financial assets that are debt instruments measured at amortised cost or FVTOCI as well as the Group's finance lease receivables, contract assets and issued financial guarantee contracts.

The Group has applied the simplified approach to recognise lifetime expected credit losses for its trade receivables, finance lease receivables and contracts assets as required or permitted by IFRS 9. The loss allowance for these assets as at 1 January 2020 was not significantly different to that under IAS 39.

(f) Hedging
The Group has elected to apply the IFRS 9 hedge accounting requirements because they align more closely with the Group's risk management policies. An assessment of the Group's hedging relationships under IAS 39 was performed and it was determined that the relationships will qualify as continuing hedging relationships under IFRS 9.

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

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

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

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

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

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

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

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

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

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

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

- costs of clearing the site (including internal and outsourced labour in relation to site workers);
- professional fees (including fees relating to obtaining planning consent);
- purchase, installation and assembly of any necessary extraction equipment; and
- costs of testing whether the extraction process is functioning properly (net of any sales of test products).

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

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

(h) Intangible assets
(i) Goodwill
All business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group.
For acquisitions on or after 1 January 2004, the Group measures goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interests in the acquiree; plus
- the fair value of the existing equity interest in the acquiree; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

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

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

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

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

In respect of business acquisitions that have occurred since 1 January 2004, goodwill represents the difference between the cost of the acquisition and the fair value of the net identifiable assets and contingent liabilities acquired. The classification and accounting treatment relating to the acquisition of Edenhall Holdings Limited on 11 December 2018 was adjusted in preparing the Group's opening IFRS balance sheet at 1 January 2019.

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

Goodwill is subsequently stated at cost less any accumulated impairment losses. Goodwill is allocated to cash generating units and is tested annually for impairment (see accounting policy (m)). In respect of equity-accounted investees, the carrying amount of goodwill is included in the carrying amount of the investment in the investee.

In respect of acquisitions where there is a contingent consideration element, an accrual is created for the estimated amount payable if it is probable that an outflow of economic benefits will be required to settle the obligation and this can be measured reliably.

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

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

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

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

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

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

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

(i) Trade and other receivables
Trade and other receivables are stated at initial recognition, at their transaction price (as defined in IFRS 15) if the trade receivables do not contain a significant financial component in accordance with IFRS 15 (or when the entity applies the practical expedient in accordance with paragraph 63 of IFRS 15).

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

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

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

(l) Assets classified as held for sale
Assets classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell. Assets are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and expected to be completed within one year from the date of classification, and the asset is available for immediate sale in its present condition.

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

For goodwill, assets that have an indefinite useful life and intangible assets that are not yet available for use, the recoverable amount is estimated at each balance sheet date. An impairment loss is recognised whenever the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. Impairment losses are recognised in the Consolidated Income Statement.

Impairment losses recognised in respect of cash generating units are allocated first to reduce the carrying amount of any goodwill allocated to cash generating units and then to reduce the carrying amount of the other assets in the unit on a pro-rata basis. A cash generating unit is the group of assets identified on acquisition that generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

The recoverable amount of assets or cash generating units is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash generating unit to which the asset belongs.

(ii) Reversals of impairments
An impairment loss in respect of goodwill is not reversed. In respect of other assets, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

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

(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) Leases
IFRS 16 distinguishes leases and service contracts on the basis of whether an identified asset is controlled by a customer. A right-of-use asset and a corresponding liability are recognised for all leases by lessees (i.e. all on balance sheet) except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as for the impact of lease modifications, amongst others.

In adopting IFRS 16 from 1 January 2019, the Group has applied the modified retrospective transition approach. Right-of-use assets of £45,022,000 and lease liabilities of £46,520,000 were recognised as at 1 January 2019. For certain leases the Group has elected to measure the right-of-use asset as if IFRS 16 had been applied since the start of the lease, but using the incremental borrowing rate at 1 January 2019, with the difference between the right-of-use asset and the lease liability taken to retained earnings. In other cases, the Group has elected to measure right-of-use assets at the amount of the lease liability on adoption (adjusted for any lease prepayments or accrued lease expenses, onerous lease provisions and leased assets which have subsequently been sub leased). The Group has elected to adopt the following practical expedients on transition:

- where an onerous lease provision is in existence, to utilise this provision to reduce the right-of-use asset value rather than
- undertaking an impairments review;
- to use hindsight in determining the lease term;

- to exclude initial direct costs from the measurement of the right-of-use asset; and
- to apply the portfolio approach where a group of leases has similar characteristics.

The Group's leases principally comprise commercial vehicles and trailers, fork lift trucks, motor vehicles, certain property assets and fixed plant.

Short-term leases, with a duration of less than 12 months, are accounted for in accordance with the recognition exemption in IFRS 16 and hence related payments are expensed as incurred. The Group also utilises the option to apply the recognition exemption for low value assets (with a value of less than the equivalent of $5,000), which means that related payments have been expensed as incurred.

(q) Pension schemes

(i) Defined benefit schemes

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

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

When the benefits of the scheme are improved, the portion of the increased benefit relating to past service by employees is recognised as an expense in the Income Statement in the period of the scheme amendment.

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

(ii) Defined contribution schemes

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

(r) Share-based payment transactions

The Group enters into equity settled share-based payment transactions with its employees. In particular, annual awards are made to employees under the Company's Management Incentive Plan ("MIP").

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

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

(s) 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.

(t) 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.

(u) Trade and other payables
Trade and other payables are stated at initial recognition, at their fair value and subsequently at amortised cost.

(v) Revenue
Revenue from the sale of goods is recognised in the Consolidated Income Statement upon the despatch of goods, when the performance obligations to customers have been satisfied. Revenue represents the invoiced value of sales to customers less returns, allowances, rebates and value added tax.

Revenue is recorded typically on despatch of the Group's products, when performance obligations to customers are satisfied. Products are usually delivered using the Group's fleet of delivery vehicles. Amounts due from customers are payable by customers on standard credit terms and there is no significant financing component or variable consideration within amounts due from customers. There are no significant obligations arising in relation to returns, refunds, warranties or similar obligations.

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

(w) Expenses
(i) Operating lease payments
Payments made under operating leases are recognised in the Consolidated Income Statement on a straight line basis over the term of the lease. Lease incentives received are recognised in the Consolidated Income Statement over the life of the lease.

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

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

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

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

Deferred taxation is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the

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

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

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

(y) 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.

(z) Alternative performance measures

The Group uses alternative performance measures ("APMs") which are not defined or specified under IFRS. The Group believes that these APMs, which are not considered to be a substitute for IFRS measures, provide additional helpful information. APMs are consistent with how business performance is planned, reported and assessed internally by management and the Board and provide more meaningful comparative information.

Results before operational restructuring costs and asset impairments

Operational restructuring costs and asset impairments have been disclosed separately on the face of the Income Statement due to the scale and exceptional nature and to provide a better understanding of the Group's results.

Pre-IFRS 16 basis

Disclosures required under IFRS are referred to as either on a post-IFRS 16 basis or on a reported basis. Disclosures referred to on a pre-IFRS 16 basis are restated to those that applied before the adoption of IFRS 16 and are used to provide additional information and a more detailed understanding of the Group results. A summarised Income Statement on both a reported basis and a pre-IFRS 16 basis is set out below. Both are disclosed before operational restructuring costs and asset impairments.

	Pre-IFRS 16 December 2020 £'000	**Impact of IFRS 16 £'000**	**Post-IFRS 16 December 2020 £'000**	Pre-IFRS 16 December 2019 £'000	Impact of IFRS 16 £'000	Post-IFRS 16 December 2019 £'000
Revenue	**469,454**	**-**	**469,454**	541,832	-	541,832
Net operating costs	**(443,992)**	**1,720**	**(442,272)**	(469,252)	1,101	(468,151)
Operating profit	**25,462**	**1,720**	**27,182**	72,580	1,101	73,681
Finance charges (net)	**(3,116)**	**(1,604)**	**(4,720)**	(2,486)	(1,342)	(3,828)
Profit before tax	**22,346**	**116**	**22,462**	70,094	(241)	69,853
Income tax	**(5,196)**	**-**	**(5,196)**	(11,942)	-	(11,942)
Profit after tax	**17,150**	**116**	**17,266**	58,152	(241)	57,911

	Pre-IFRS 16 December 2020	Impact of IFRS 16	Post-IFRS 16 December 2020	Pre-IFRS 16 December 2019 £'000	Impact of IFRS 16 £'000	Post IFRS 16 December 2019
Profit before tax (£'000)	**22,346**	**116**	**22,462**	70,094	(241)	69,853
EBITDA (£'000)	**43,838**	**13,780**	**57,618**	90,115	13,760	103,875
EPS (pence)	**8.54**	**0.06**	**8.60**	29.48	(0.12)	29.36
Net debt (£'000)	**26,945**	**48,621**	**75,566**	18,654	41,322	59,976
ROCE (%)	**8.9**	**(0.7)**	**8.2**	23.7	(2.3)	21.4
Net debt: EBITDA	**0.6**	**0.7**	**1.3**	0.2	0.4	0.6
Gearing (%)	**9.3**	**17.0**	**26.3**	6.3	14.0	20.3

EBITA and EBITDA

EBITA represents earnings before interest, tax and the amortisation of intangibles. This is a component of the ROCE calculation. EBITDA is calculated by adding back depreciation to EBITA. Both EBITA and EBITDA are disclosed before operational restructuring costs and asset impairments.

	Pre-IFRS 16 2020 £'000	Post-IFRS 16 2020 £'000	Pre-IFRS 16 2019 £'000	Post-IFRS 16 2019 £'000
EBITDA	**43,838**	**57,618**	90,115	103,875
Depreciation	**(15,657)**	**(27,717)**	(15,112)*	(27,771)
EBITA	**28,181**	**29,901**	75,003	76,104
Amortisation of intangible assets	**(2,719)**	**(2,719)**	(2,423)	(2,423)
Operating profit	**25,462**	**27,182**	72,580	73,681

* Pre-IFRS 16 depreciation of £15,112,000 comprises depreciation of £14,903,000 in respect of tangible fixed assets and £209,000 relating to assets previously classified as finance leases but now reclassified as right-of-use assets.

ROCE

Reported ROCE is defined as EBITA divided by shareholders' funds plus net debt. ROCE is disclosed before operational restructuring costs and asset impairments.

	Pre-IFRS 16 2020 £'000	Post –IFRS 16 2020 £'000	Pre-IFRS 16 2019 £'000	Post-IFRS 16 2019 £'000
EBITA	**28,181**	**29,901**	75,003	76,104
Shareholders' funds	**289,816**	**287,848**	297,850	295,766
Net debt	**26,945**	**75,566**	18,654	59,976
	316,761	**363,414**	316,504	355,742
Reported ROCE	**8.9%**	**8.2%**	23.7%	21.4%

Net debt

Net debt comprises cash at bank and in hand, bank loans and leasing liabilities.

The ratio of operating cash flow to EBITDA

The ratio of operating cash flow to EBITDA is calculated as set out below:

	2020 £'000	2019 £'000
Net cash flows from operating activities	**12,372**	88,125
Operational restructuring costs paid	**6,946**	-
Net financial expenses paid	**4,475**	3,193
Taxation paid	**4,631**	9,023
Operating cash flow	**28,424**	100,341
EBITDA	**57,618**	103,875
Ratio of operating cash flow to EBITDA	**49.3%**	96.6%