

Strong recovery – positioned well for sustainable growth

Marshalls plc Annual Report and Accounts 2020





We do the right things, for the right reasons, in the right way

This is The Marshalls Way of doing business

We exist to **create better spaces and futures for everyone.**

- We lead the market in developing sustainable and innovative products
- We match high performing operations with logistics excellence
- We deliver the best customer experience
- We provide a digital experience that balances the new with the traditional
- We target market opportunities through selective acquisitions
- We recruit the best talent to remain truly competitive



Our purpose is to create better spaces and futures for everyone: socially, environmentally and economically

Read more on [page 6](#)



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

Read more on [page 6](#)



Our strategic goal is to become the UK's leading manufacturer of products for the built environment

Read more on [page 6](#)



Stay up to date with the latest investor news at marshalls.co.uk

Cover image

SYMPHONY® Matte porcelain paving in carbon

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Recent trading continues to improve

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



Operational highlights

- Priority given to health and safety throughout the COVID-19 crisis
- Trading has started strongly in 2021 – at the end of February, sales are up 7% and orders are up 12% compared to the same period in 2020
- Focus on servicing our customers
- Operational restructuring exercise completed in H1 2020 – increased manufacturing efficiency and operational flexibility, with fixed costs reduced by £12 million per annum
- Maintained focus on innovation, ESG priorities, sales opportunities and sustainable growth over the medium term
- Capital investment of £30 million planned for 2021

Financial highlights

- Progressive growth in sales over the second half of 2020 – sales in quarter 4 ahead of prior year
- Reinstatement of dividends – final dividend of 4.30 pence recommended
- Full year revenue of £469.5 million (2019: £541.8 million)
- Strong growth in Domestic sales – growth of 9% in H2 2020
- Increase in International sales of 16%
- Strong balance sheet and a flexible capital structure
- Full repayment of all Government coronavirus assistance (furlough and deferred VAT)

	2020 £'000	2019 £'000
Results before operational restructuring costs and asset impairments*		
Revenue	£469.5m	£541.8m
EBITDA	£57.6m	£103.9m
Adjusted operating profit	£27.2m	£73.7m
Profit before tax	£22.5m	£69.9m
Basic EPS	8.60p	29.36p
ROCE	8.2%	21.4%
Net debt (reported)	£75.6m	£60.0m
Net debt (pre-IFRS 16)	£26.9m	£18.7m
Adjusted operating profit	£27.2m	£73.7m
Operational restructuring costs and asset impairments	£(17.8)m	–
Statutory operating profit	£9.4m	£73.7m
Statutory results		
Statutory operating profit	£9.4m	£73.7m
Profit before tax	£4.7m	£69.9m
Basic EPS	1.19p	29.36p
Recommended final dividend	4.30p	–

Note

* Alternative performance measures are used consistently throughout the Annual Report and Accounts. These relate to like-for-like, EBITA, EBITDA, return on capital employed ("ROCE"), net debt and results before operational restructuring costs and asset impairments. Following the transition to IFRS 16, reference has been made to "pre-IFRS 16" and "reported basis", the latter referring to amounts required under IFRS 16. For further details of their purpose, definition and reconciliation to the equivalent statutory measures see Note 1 to the Financial Statements.



5 year Strategy – Read more on [page 6](#)

Capital investment

We are investing more than £30 million in 2021 to increase capacity for existing product ranges, build on our sustainable processes and boost product and digital innovation. We have a good pipeline of capital investment projects that will drive future organic growth.

In 2021 we will commence construction of a flagship dual block plant at our St. Ives manufacturing site, which will be the first facility of this nature in the UK. This represents a significant capital investment of approximately £20 million over three years, which will significantly increase capacity, improve efficiency, enable multiple secondary finishing and facilitate the launch of new products.

£30m

Capital investment planned for 2021

Product

Conservation X block
in silver grey

Location

Heartlands, Cornwall



The UK's leading manufacturer of hard landscaping products

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

Where we operate

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

Locations

- Marshall's Group
- Marshall's Landscape
- Mineral Products
- CPM
- Premier Mortars
- Edenhall
- Stancliffe Stone
- Natural Stone
- Marshall's NV



What sets us apart

Growth agenda

Digital investment

£12m

over last 4 years

A strategy driven by organic growth, digital investment and selective acquisitions.

Read about our strategy on pages 20 and 21

Innovation and NPD

New product ranges

132

launched in the last 2 years

We continue to focus on innovation and new product development, and continue to invest in digital, manufacturing and materials technology capabilities.

Read more about research and development on pages 46 and 47

Strong market position

CPA growth forecast for 2021

14.0%

(2022: 4.9%) (total construction output)

Wide market reach targeting strong growth areas, e.g. New Build Housing, Road and Rail, Infrastructure and Water Management.

Read more about our markets on pages 14 and 15

Carbon reduction

Science Based Targets initiative commitment set

50% reduction

in the Group's carbon footprint (total CO₂e including transport) since 2008

Our sustainability strategy is built on our vision of creating better spaces and futures for everyone.

Read more about our ESG credentials on pages 38 to 51



Growth Markets **pages 14 and 15**

Business Model **pages 16 and 17**

Strategy **pages 20 and 21**

Our markets

Homeowners



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

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

Homeowners revenue

27%

(2019: 26%)



Public Sector and Commercial



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

Public Sector and Commercial revenue

66%

(2019: 69%)



International



Marshalls' International operations comprise a manufacturing site in Belgium and sales and administration offices in the USA and China.

International revenue, which also includes exports from the UK, comprises 7 per cent of Group sales.

International revenue

7%

(2019: 5%)



Diversified Group

Domestic revenue growth in 2020 HY2

9%

Serving Public Sector, Commercial and Domestic end markets. Wide-ranging mineral reserves with the "Marshalls Stone Standard" quality mark.

*Read about how we are improving our digital offering on **page 26***

Efficient manufacturing network

Capital investment planned for 2021

£30m

Well-invested manufacturing plants with continuing emphasis on high-quality maintenance, technology improvements and reinvestment.

*Read about our capital investment on **page 3***

Strong and efficient balance sheet

Net debt: EBITDA

1.3 times

(0.6 times on a pre-IFRS 16 basis)

Strong balance sheet with low gearing of 26.3 per cent (9.3 per cent on a pre-IFRS 16 basis).

*Read about our balance sheet on **pages 35 to 37***

Culture

Culture

Fair Tax Mark accreditation

7 years

Active apprenticeships

99

The Marshalls Way underpins our culture with our key objective of doing business responsibly. This is embedded in our Code of Conduct and relationship with stakeholders.

*Read about our sustainability strategy from **page 39***



Building on strong foundations

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



Brand preference for product specification

We have superior product knowledge, quality and performance.

Our objectives

To build relationships and make sure our products are specified by developers, builders and architects.

What we have achieved

We have an in-depth understanding of the customer segments and create demand through brand and "best in class" customer experience that in turn drives the specification of our products.

Logistics excellence

We put customer wants and needs first with direct, informed and professional deliveries.

Our objectives

To deliver logistics excellence with greener vehicles and new technology across our full fleet.

What we have achieved

During 2020 we have introduced new technology and implemented changes to our processes to ensure that we can continue to deliver and keep ourselves and our customers safe.



Strategy **pages 20 and 21**

Key Performance Indicators **pages 22 and 23**

Our strategic priorities

Sustainable materials supply

We source and supply sustainable materials, products and solutions.

Our objectives

To do business responsibly and ethically, to address the risk of climate change and protect the environment.

What we have achieved

We have a procurement process focused on sourcing ethical and sustainable materials. We are committed to reducing the environmental impact of our products, reducing packaging and the recycling of water at our sites.

Customer centricity

We balance innovation and tradition and provide an easy-to-use service in a complex and competitive market.

Our objectives

To deliver a market leading customer service and exceed customer expectations.

What we have achieved

We have an experienced customer service team co-ordinating functional departments across the Marshalls Group, including sales, production, E-commerce and haulage. We increasingly use IT and digital technology to improve the user and customer experience.

Operational excellence

We invest in our manufacturing facilities and industrial network and use the best tools, processes and systems.

Our objectives

To deliver operational excellence by continuously improving how we work and deliver new ways of thinking.

What we have achieved

We have restructured our network and re-opened our Maltby site to manufacture the Marshalls concrete brick. Capital investment has been £101 million over the last five years.

New product development

We deliver market leading product innovation.

Our objectives

To create new, innovative products that will drive the market forward.

What we have achieved

We have delivered many new products into the Domestic and Commercial end markets over the last five years. Our manufacturing facilities in South Wales and Maltby now have capacity to produce 150 million concrete bricks each year. Compared with the clay brick alternative, the concrete brick reduces the CO₂ impact over the lifetime of the brick by approximately 49 per cent.

Growth in the emerging businesses

We make selective acquisitions to complement our business and help us advance into new and untapped areas.

Our objectives

To grow our emerging businesses to help us expand into key growth areas.

What we have achieved

We have restructured the reporting channels to provide additional focus and have continued to invest to promote the introduction of new products and fuel growth.

Digital transformation

We are continuing to invest in digital and forward-thinking technology.

Our objectives

To provide an end-to-end digital offering and to pioneer the digital standard for the industry.

What we have achieved

We introduced our E-commerce platform during 2020. Demand has been strong during the year and we expect sales to double during 2021. The E-commerce platform is creating a cohesive, frictionless user experience for all customer types.



New objectives for improvement and growth have been set for every area of the business



"The Board is committed to the promotion of strong environmental, social and governance principles."

Summary

- Decisive action taken in response to COVID-19
- Health and safety has been our priority
- Order books remain strong moving into 2021
- Commitment to ESG and sustainability
- 50% carbon reduction since 2008 and SBTi targets set
- Reintroduction of dividends – 2020 dividend of 4.30 pence recommended
- Maintaining 2 times cover dividend policy

Overview

The last year has seen tremendous challenges for all for us, both at work and in our personal lives. The reduction in sales in the second quarter of 2020 was dramatic, both in terms of quantum and the speed of the decline. Difficult decisions had to be made and the operational restructuring exercise, undertaken in the second quarter of 2020, included certain site closures, and the resulting redundancies covered approximately 15 per cent of Marshalls' total workforce. During this period, your Board took an active role in responding to the crisis, communicating regularly with the management team and holding weekly Board meetings. Throughout the last year, the health, safety and wellbeing of

our employees, suppliers and customers have been at the top of our agenda.

In the second half of the year, the strong sales growth was better than expected and continued to improve throughout the period. Our manufacturing sites have been busy since July, operating health and safety practices which have been, in many cases, ahead of the recommended guidelines. Our focus has been to meet the expectations of our customers and all other stakeholders throughout. Demand remains high and order books have been strong moving into 2021.

Results

Group revenue for the year ended 31 December 2020 was £469.5 million (2019: £541.8 million), which represents a decrease of 13 per cent. At the half year point, revenue was down 25 per cent compared with the prior year period and consequently the full year result reflects a significant improvement in the second half of the year. Since the half year, the trend of sales growth has progressively increased and in the second half of the year sales were just slightly down against the comparative period for 2019.

Profit before tax was £22.5 million, before operational restructuring costs and asset impairments of £17.8 million. Reported profit before tax was £4.7 million (2019: £69.9 million). EBITDA, before operational restructuring costs and asset impairments, was £57.6 million (2019: £103.9 million) and earnings per share, before operational restructuring costs and asset impairments, was 8.60 pence (2019: 29.36 pence). Reported earnings per share was 1.19 pence.

Marshalls continues to have strong cash generation, with year-end net debt, on a pre-IFRS 16 basis, of £26.9 million (2019: £18.7 million). On a reported basis, net debt was £75.6 million (2019: £60.0 million). We have repaid all furlough monies and deferred VAT during the second half of the year.

Dividends

Due to the impact of COVID-19, the Board did not propose an interim dividend during 2020. However, the payment of dividends continues to be a key pillar of the Group's capital allocation policy.

The Group continues to maintain a progressive dividend policy with the objective of achieving two times dividend cover over the business cycle. As earnings increase we plan to share the increase between strengthening cover and progressively raising the rate of dividend.

The Board is now proposing a final dividend of 4.30 pence which compares with earnings per share of 8.60 pence for the year ended



31 December 2020 (before exceptional operational restructuring costs and asset impairments). This represents two times cover.

On the assumption that trading supports this position, the Group would look to maintain the stated policy of two times cover for the year ending 31 December 2021. This policy will provide increased returns for shareholders whilst at the same time recognising an appropriate degree of caution and stewardship.

Marshall's 5 year Strategy

This year we have refreshed our 5 year Strategy which continues to be supported by our goals and growth objectives which are set out within the Group's eight strategic growth pillars. Each area of the business has a range of improvement plans to drive growth. These are explained in more detail on pages 6 and 7 and we have now set new objectives for improvement and growth in every area of the business. The strategy is explained in more detail throughout this Annual Report and, in particular, in a Q&A format on pages 12.

The Marshall's Way and responsible business

The Group's strategy is underpinned by The Marshall's Way which is fundamental to the Group's culture and embedded in our desire to undertake business responsibly. Our Code of Conduct lays out what we expect from our employees and stakeholders in doing business the right way. Essentially, The Marshall's Way means doing the right things, for the right reasons, in the right way.

The Board will continue to focus on culture and people engagement. Our priorities include work on employee wellbeing and safety, succession and development planning and diversity, equality, respect and inclusion.

Janet Ashdown leads the Board's engagement with the elected Employee Voice Group which includes employees from all parts of the Group. This initiative has proved very successful and has been supported by the "Your Voice" listening initiative. Three full employee feedback questionnaires have been run during 2020 by our strategic partner, Peakon, focusing on "Life at Marshall's", employee wellbeing and our handling of COVID-19. These initiatives are explained in more detail on pages 48 to 50.

Read more about The Marshall's Way on [page 13](#)

Environmental, social and governance ("ESG") objectives

The Group is committed to the promotion of strong environmental, social and governance objectives and this year we have included a dedicated ESG section within the Annual Report. We have set out our policies, objectives and approach in relation to all associated aspects and also explain how we engage with all our stakeholder groups. We aim to give full consideration to the long-term impact of all business operations, which means that all our products and services need to be ethically sourced and sustainable. Marshall's continues to support the UN Sustainable Development Goals and we maintain a detailed framework and comprehensive policies covering the environment, human rights, labour and governance (anti-corruption). We are pleased that for the seventh consecutive year Marshall's has been awarded the Fair Tax Mark accreditation. This recognises social responsibility and transparency in our tax affairs.

Read more about ESG from [pages 38 to 51](#)

We are focused on playing our part in addressing the risk of climate change and the protection of the environment. The Group continues to be committed to decarbonisation and we have aligned all greenhouse gas emission reduction targets to be well below two per cent emissions scenarios. During 2020, we became the first company in our sector to have emission reduction targets approved by the Science Based Targets initiative as being

consistent with levels required to meet the goals of the Paris Agreement. Marshall's has committed to reduce Scope 1 and 2 greenhouse gas emissions by 40 per cent per tonne of production by 2030 from a 2018 base year. For Scope 3, we have also committed that 73 per cent of our suppliers by emissions, covering purchase goods and services and upstream transport and distribution, will have science-based targets by 2024.

Governance

We are committed to the highest standards of corporate governance and we comply with all the provisions of the UK Corporate Governance Code as outlined in our Corporate Governance Statement on pages 54 to 63. To ensure a strong alignment between the interests of management and our shareholders a large proportion of management's remuneration continues to be in shares which must be retained for up to five years.

During the second quarter of the year, the Board and Executive Management agreed to a 20 per cent reduction in remuneration and other senior managers also agreed to a 15 per cent reduction. These amounts, totalling £120,000, have subsequently been paid to Macmillan Cancer Support and to MIND, which are the Company's charities.

The Group's response to the COVID-19 pandemic has been a critical feature of 2020. A detailed plan was formulated covering all aspects of the business including health and safety, working from home measures, maintenance of IT and financial control, operational and manufacturing business continuity, liquidity and scenario planning. The Board was heavily involved with the development of plans and ongoing monitoring and provided detailed oversight and governance. Further details of how the Board exercised governance, and was fully involved with the ongoing engagement with stakeholders throughout the year, are set out in a COVID-19 case study on pages 56 and 57.

Our people

Our employees continue to be a major strength of the business and I would like to thank every member of our diverse and skilled workforce for their resilience and forbearance in the face of the many challenges that we have been faced with during the last year. I have been continually impressed with the way that all our employees have managed to adapt and we should all be proud of what has been achieved.

Read more about our people on [pages 48 to 50](#)

Outlook

Trading has started strongly in 2021. At the end of February, sales are up 7 per cent and orders are up 12 per cent compared to the same period in 2020. The CPA's winter base case scenario predicts an increase in UK market volumes of 14.0 per cent in 2021 and 4.9 per cent in 2022. Despite wider market uncertainty, the underlying indicators in our main growth markets of New Build Housing, Road, Rail and Water Management remain positive.

Although market demand remains uncertain, we remain focused on developing future growth opportunities and delivering the strategic objectives in our 5 year Strategy. Our strategy continues to be underpinned by strong market positions, focused investment plans and an established brand. Marshall's' liquidity is strong and will support our investment priorities going forward.

Vanda Murray OBE
Chair



We are well placed to deliver long-term sustainable growth



"Recent trading continues to improve and order books remain strong."

Summary

- Revenue in second half of 2020 improved strongly
- Trading continues to improve
- Operational restructuring programme complete – reduced fixed cost base
- Full year revenue of £469.5 million (2019: £541.8 million)
- Commitment to invest – £30 million capital plan for 2021
- Strong balance sheet, with low debt, and a flexible capital structure

Introduction

The positive actions taken by the Group in response to the COVID-19 pandemic have ensured the Group's much improved performance in the second half of the year, which has also seen sales growth at higher rates than was initially expected. We have prioritised the safety and wellbeing of our employees and customers and by maintaining robust health and safety procedures we have ensured that we could continue operating and delivering to our customers safely.

Revenue in the second half of the year improved strongly and has been almost in line with the comparative period in 2019. Better than expected trading in the final months of the year has enabled us to repay all the furlough monies (£9.4 million) and deferred VAT (£11.3 million) and still report a low year-end net debt figure of £26.9 million, on a pre-IFRS 16 basis. We continue to maintain a strong balance sheet, supported by a flexible capital structure, and we maintain significant headroom against our bank facilities. Recent trading has also exceeded expectations and continues to improve. Order books remain strong.

2020 trading summary

Group revenue for the year ended 31 December 2020 was £469.5 million (2019: £541.8 million), which represents a decrease of 13 per cent. This compares with a decrease in sales of 25 per cent in the first half of the year.

Sales in the Domestic end market were up 9 per cent in the six months ended 31 December 2020, compared with the same period last year, which compares with a decrease of 25 per cent in the first half of the year. For the full year, revenue was down 9 per cent compared with 2019 and for the year ended 31 December 2020 Domestic sales represented 27 per cent of Group revenue. The survey of domestic installers at the end of February 2021 revealed order books of 12.2 weeks (2020: 10.7 weeks) which compared with 12.8 weeks at the end of October 2020. There has been a strong demand for DIY projects with consumers spending more time at home and choosing to invest in home and garden projects. We have seen a trend towards the "Don't Move, Improve" part of the Domestic market.

Sales in the Public Sector and Commercial end market were down 6 per cent in the six months ended 31 December 2020, compared with 2019, which compares with a decrease of 28 per cent in the first half of the year. For the full year, revenue was down 17 per cent compared with 2019 and for the year ended 31 December 2020 and represented 66 per cent of Group sales.

International revenue grew by 16 per cent during 2020, supported by consistently strong sales from Marshalls NV in Belgium, and now represents approximately 7 per cent of Group sales. We have continued to develop Marshalls NV's operating model and improve efficiency. In 2020 the business became profitable for the first time and there are further opportunities for improvement.

Operational restructuring costs

In the second quarter of the year, the Group undertook a restructuring programme covering all parts the business. In total, around 15 per cent of Marshalls' workforce left the business and the closure of manufacturing facilities at Falkirk, Llan and Livingston was announced along with a number of Premier



Mortars sites. The full cost of the restructuring programme has been £17.8 million and this has been charged to the Income Statement. These actions are expected to reduce fixed costs by approximately £12 million in a full year and improve operational efficiency going forward.

2020 results

EBITDA was £57.6 million (2019: £103.9 million) before operational restructuring costs and asset impairments of £17.8 million. Operating profit, before operational restructuring costs and asset impairments, was £27.2 million (2019: £73.7 million). After operational restructuring costs and asset impairments the reported profit before tax for the period was £4.7 million (2019: £69.9 million).

Basic earnings per share, before operational restructuring costs and asset impairments, was 8.60 pence (2019: 29.36 pence) per share. Reported earnings per share was 1.19 pence (2019: 29.36 pence) per share).

Capital discipline remains a key priority and the Group's strong cash generation has continued. Reported net debt at 31 December 2020 was £75.6 million (2019: £60.0 million). On a pre-IFRS 16 basis, net debt was £26.9 million (2019: £18.7 million).

Organic investment

During the year ended 31 December 2020, capital expenditure was restricted to only essential items and amounted to £14.7 million (2019: £22.9 million). The Group is now committed to increase organic investment significantly over the medium term and further capital expenditure of £30 million is planned for 2021. We continue to generate a good pipeline of capital investment projects that will drive future organic growth.

Our Maltby site was mothballed in 2012 but has continued to be maintained. We have invested in new plant during 2020 and the site was reopened at the start of 2021 to manufacture the Marshalls concrete brick, which will allow us to grow our sales into the housebuilding sector. Our range of perforated concrete bricks has been designed to maximise the CO₂ savings and to provide significant installation benefits. The site retains flexibility to produce our full range of concrete block paving products.

Reflecting our increased market confidence, in 2021 we will commence construction of a flagship dual block plant at our St Ives site, which will be the first facility of this nature in the UK. The planned investment over the next three years will be around £20 million and the project will significantly increase capacity, improve efficiency, enable multiple secondary finishing and facilitate the launch of new products.

There will be a continued focus on innovation and new product development across all parts of the Group. Research and development expenditure of £5 million is planned for 2021. The development pipeline continues to be strong and the Group is committed to providing sustainable, high performance product solutions.

Organic growth will continue to be supported by targeted acquisitions. We will continue to focus on bolt-on acquisition targets in our key growth areas of Water Management and New Build Housing.

Improvements in operational efficiency

COVID-19 has caused operational efficiency challenges for the whole construction products sector. The growth in sales in quarter three was greater than expected and, combined with lower stocks, this gave rise to significant operational challenges, especially in quarter four. We have experienced strong order books but, in line with the rest of the construction sector, we have been faced with longer lead times, and the operational challenge of balancing supply with demand. The Group's



5 year Strategy – Read more on page 6

Brand preference for product specification

Our products are specified by developers, builders and architects. We build supportive and professional relationships with our customers.

The Marshalls brand benefits from:

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



national network of concrete manufacturing sites and quarries has continued to provide an advantage in this regard and our flexible operating framework has enabled us to rebalance supply and demand across the network.

Despite the challenges of 2020, we are driving cost efficiency improvements throughout the business and our objective continues to be to mitigate inflation on an ongoing basis to ensure sustainable business continuity and cost control. The Group's E-commerce trading business model was launched in April 2020 and has delivered approximately £5 million of sales during the year. E-commerce revenue will complement existing sales channels and is expected to double during 2021. A key aspect of the model is that it supports and respects our merchant customers.

Health and safety

We are committed to ensuring the health, safety and wellbeing of everyone who works with us or for us. This has been at the top of our list of priority areas throughout the COVID-19 crisis and the additional provisions that have been put in place at our sites are in line with or, in most cases, exceed the recommended guidelines. The new working from home requirements for office staff have, in certain cases, given rise to the potential for adversely impacting employee wellbeing and mental health. We recognise this and regular communication and support, including our dedicated external and confidential Employee Assistance Helpline, have been actively promoted.

Marshalls' 5 year Strategy and ESG agenda

We remain confident that our strategy is the right one for Marshalls, as it has built-in flexibility such that the pace of delivery can be adopted for external and economic uncertainties.

The Group's long-term strategy continues to focus on organic investment to drive growth and is supported by an increasingly strong ESG agenda. The overall Group strategy continues to focus on the maintenance of a strong balance sheet, a flexible capital structure and a clear capital allocation policy. These objectives drive both long-term sustainable growth and shareholder returns.

Martyn Coffey
Chief Executive



We remain committed to the 2025 Strategy as our driver for growth



How has the pandemic impacted the Group's 5 year Strategy?

The impact of COVID-19 has presented many challenges and led to a significant reduction in sales during the second quarter of 2020. The pandemic necessitated a temporary pause to certain aspects of the strategy, but we remain confident that the strategy is the right one, with built-in flexibility such that the pace of delivery can be adjusted for external uncertainties.

How has COVID-19 impacted Marshalls during 2020?

The impact of COVID-19 has been unprecedented and has put extreme pressure on all parts of society and business life. Health and safety has remained a key area of focus throughout. Sales in April 2020 were 66 per cent lower than the comparative month in 2019 and decisive actions were necessary to protect the business. New short-term bank facilities were entered into in May 2020 to ensure that adequate liquidity was maintained. Discretionary and non-essential expenditure was deferred and the Group utilised the Government's furlough arrangements and other tax deferral schemes. All furlough and deferred tax payments have now been repaid. Despite the disruption to normal working practices, we maintained a strong focus on control and governance throughout the year.

"We operate in attractive markets and are well placed to deliver improvements in operational efficiency."

How have you emerged stronger from the pandemic?

The restructuring programme undertaken during the year covered all parts of the business and the actions taken are expected to reduce fixed costs by approximately £12 million in a full year and improve operational efficiency going forward. Our national network and digital focus have provided a competitive advantage in comparison to many of our competitors during 2020. Our priority areas of New Build Housing, Road, Rail and Water Management remain attractive markets and we are well placed to deliver continued growth and operational profit improvements. Our continuing investments in digital and operational efficiency programmes mean that we are now in the best possible position to benefit from future market growth.

How do you aim to achieve your strategic goals?

At the heart of the strategy are eight priority areas for investment and business focus. We believe that these areas,

which are set out on pages 6 and 7, provide significant growth potential for the Group over the next five years.

During 2020 we have increased the pace of delivery of the digital strategy, with the accelerated launch of the E-commerce trading platform. We have a clear opportunity to pioneer the digital standard for our industry.

There continues to be opportunities to improve operational efficiency in the manufacturing network. We lead the market on quality for our products and services and our aim is to match this with market leading and forward-thinking technology. We continue to focus on new product development and have a strong pipeline of projects.

At the heart of everything is the desire to source and supply sustainable materials, products and solutions. We want to do business responsibly and ethically, to address the risk of climate change and to protect the environment.

What do you see as the key risks now for the business?

The Group continues to face significant challenges, both external and internal to the business. We have a well-defined risk management process and we formally review these risks, and the Group's response to them, twice a year. The Group's main risks are volatility in the market, cyber risk, people related risks and the risk of reputational damage if we do not do things in the right way. The rapid pace of digital change in the market is a significant emerging risk and new technology could lead to further major changes in the market. In mitigation, we are continuing to make significant investment in digital as a key part of our 5 year Strategy. Our principal risks and risk management framework are set out in detail on pages 24 to 31.



year Strategy – Read more on page 7

Operational excellence

We invest in our manufacturing facilities and industrial network and use the best tools, processes and systems.

We want to deliver operational excellence by continuously improving how we work and deliver new ways of thinking.

The operational restructuring programme, completed during the year, will reduce fixed costs and improve operational efficiency going forward. The Group's production capacity has not been reduced by the restructuring changes made.



Our culture is built on strong foundations of passion and pride



We are proud of our depth of experience, but we are humble enough never to stop learning.

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

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



Find our business model on **pages 16 and 17**
Read more about our culture from **page 13**

Do the right things

- We have high standards
- We deliver market leading quality to our customers
- We meet customer expectations
- We continually develop our business and people



For the right reasons

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



In the right way

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

Go home safely



We continue to outperform the market

Our focus continues to be in those parts of the market with greatest growth potential. These include New Build Housing, Water Management and Infrastructure projects in Road and Rail.

Construction market overview

The CPA's recent winter forecast shows, under its main scenario, total construction output increasing by 14.0 per cent in 2021, after a fall of 14.3 per cent in 2020. Its forecast indicates further growth of 4.9 per cent in 2022, at which point it will surpass the levels of output achieved in 2019. This represents an improvement compared with forecasts in the second half of 2020. The COVID-19 background has eased for construction, with the more recent Government restrictions specifically allowing construction, manufacturing and builders merchants to continue operating their sites under the established health and safety measures.

For the Group's main markets, the CPA's main scenario forecasts that:

- Private Housing output will increase by 15.5 per cent in 2021 and 6.0 per cent in 2022;
- Total other new work output will increase by 17.4 per cent in 2021 and by 4.4 per cent in 2022;
- Private Housing repair, maintenance and improvement ("RM&I") output will increase by 10.1 per cent in 2021 and 3.0 per cent in 2022; and
- Infrastructure work will rise by 32.1 per cent in 2021 and 6.0 per cent in 2022.

Construction output is expected to be resilient with many parts of the construction sector recovering quickly during the second half of 2020. The CPA's main scenario is based on a "W-shaped" economic recession and recovery, with sustained improvement commencing in the second quarter of 2021. There is downside risk following the end of the Government's furlough and self-employed income support schemes, which may lead to rises in unemployment which could reduce the strength of the recovery.

Infrastructure has been less impacted by the pandemic than other parts of the construction industry, with larger sites being able to operate effective safety measures. Growth in 2021 is expected to be driven by larger projects, such as HS2, and additional focus on medium-term investment programmes. The Private Housing sector has been supported by the stamp duty holiday and the end of the first phase of the Help to Buy scheme. The strength of recovery may be impacted by the Government's appetite for extending these schemes.

Both DIY activity and Private Housing RM&I have been boosted by increased working at home and a greater desire for additional space and home improvement. Many households have benefited from higher disposable incomes due to lower commuting costs and lower cash outflows on other things, including holidays.

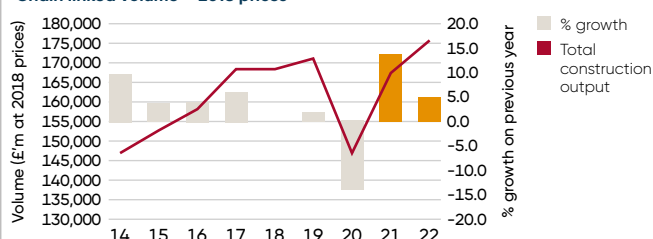
Marshall's continues to target those areas of the market with the greatest growth potential and the underlying indicators in the New Build Housing, Road, Rail and Water Management markets remain supportive.

CPA total construction output

CPA 2021 $\uparrow$ £20.9bn (14.0%)

Total construction output

Chain linked volume – 2018 prices



Why is this important for Marshall's?

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

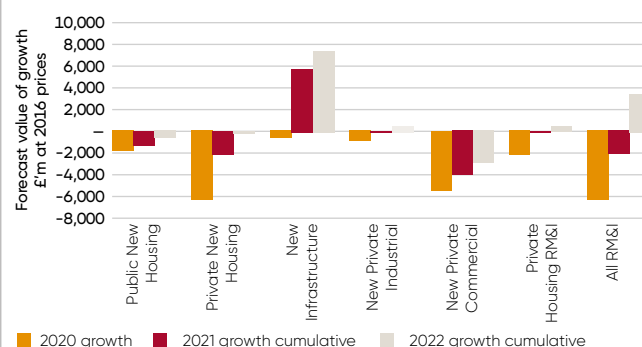
Response to market challenges – our strategic priorities

- We target individual market sectors – those with sustainable growth.
- We aim to deliver an end-to-end digital offering with market leading and forward-thinking technology.
- We focus on innovation and customer service.

CPA cumulative growth forecasts

Cumulative growth from 2019

Chain linked volume – 2018 prices



Why is this important for Marshall's?

- New Housing and Infrastructure are key sectors for Marshall's. The chart highlights growth expectations for Infrastructure.
- Private Housing RM&I is the main driver for our UK Domestic end market.

Response to market challenges – our strategic priorities

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

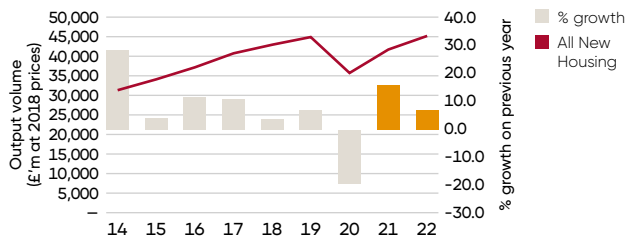


CPA all New Housing

CPA 2021 $\uparrow$ £5.6bn (15.4%)

All New Housing

Chain linked volume – 2018 prices



Why is this important for Marshall's?

- New Build Housing is a key strategic growth area.
- The sector comprises Private Housing and Public Housing.
- Both Public Housing (15.5 per cent) and Private Housing (14.8 per cent) are forecast to grow in 2021 – overall growth of 15.4 per cent.

Response to market challenges – our strategic priorities

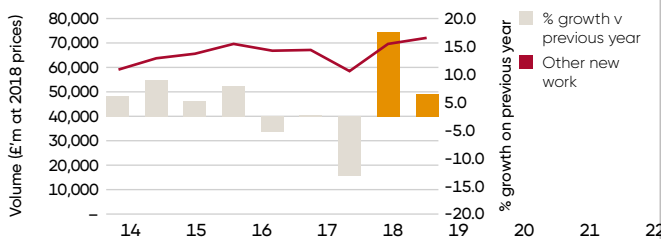
- We develop strategic relationships with housebuilders and merchants across the UK.
- We focus on the development of sustainable new products.
- We source and supply sustainable materials, with environmental considerations being a key part of our strategy. Demand for the Marshall's concrete brick is increasing significantly and, compared with a clay alternative, this reduces the lifetime CO₂ impact by around 49 per cent.

CPA other new work

CPA 2021 $\uparrow$ £10.3bn (17.4%)

Other new work

Chain linked volume – 2018 prices



Why is this important for Marshall's?

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

Response to market challenges – our strategic priorities

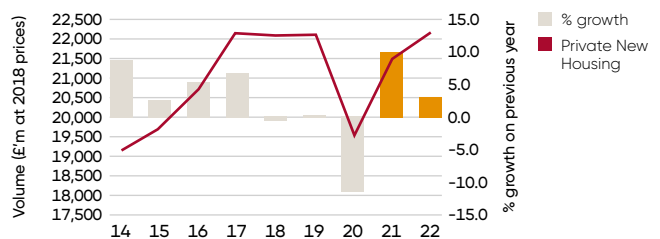
- Extended Water Management offering, following acquisition of CPM.
- Expertise in Civils and Drainage solutions.
- Continued focus on product innovation, R&D and sustainability.

CPA Private Housing RM&I

CPA 2021 $\uparrow$ £2.0bn (10.1%)

Private Housing RM&I

Chain linked volume – 2018 prices



Why is this important for Marshall's?

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

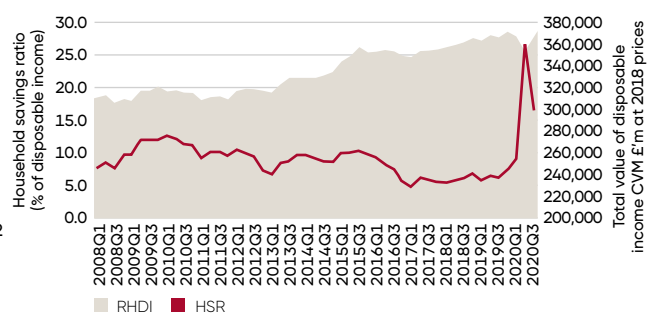
Response to market challenges – our strategic priorities

- We focus on our network of domestic installers to drive growth.
- We have invested further in digital technology to enhance the customer experience.

Household savings ratio and real household disposable income

ONS – 2020 Q2 and Q3 $\uparrow$ £161bn savings, gross (seasonally adjusted, current prices)

Household savings ratio and real household disposable income



Why is this important for Marshall's?

- DIY and RM&I demand has been buoyed by increased time spent at home and less opportunity for spending on holidays and other leisure activities. This has given rise to significant excess disposable income, particularly within Marshall's' main consumer groups.
- Growth in Domestic sales has been fuelled by a desire to invest in outside garden spaces and home improvements and an increased appetite for DIY.
- The Bank of England now estimates a significant buffer of "excess savings" of around £1 billion.

Response to market challenges – our strategic priorities

- Continuing focus on exceeding the expectations of customers, focusing on innovation and quality and the full "customer experience" journey.
- Increase in capital investment to improve operational efficiency.
- Continuing focus on new product development in order to provide a broader product choice and market leading aesthetics and design.



Creating better spaces and futures for everyone

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

Our capital



Human

The Group has an experienced workforce of approximately 2,500 employees with specialist skills and a high level of engagement.

Financial

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

Business

National coverage and sustainable operations across a national network of manufacturing sites.

Long-standing relationships with customers and suppliers and a diverse product range covering a number of end markets.

Intellectual

With over 130 years' experience we have a reputation built on transparency and long-standing core values. We focus on innovation and strong R&D and NPD.

Natural resources

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

Technology

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

Social and relationships

We have strong stakeholder relationships through constructive dialogue with local authorities, industry bodies and regulators.

Our stakeholder relationships are underpinned by a focus on responsible business which is a key part of the Marshalls culture.

Our business

Sourcing >

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

Related risks

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

Manufacturing >

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

Related risks

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

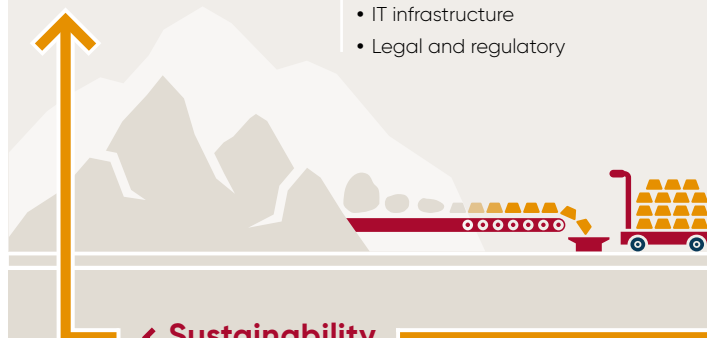
< Sustainability

Committed to ensuring our ESG credentials are at the heart of the Marshalls brand.

- Carbon reduction targets
- Science-based targets
- People commitment
- Diversity, Equality, Respect and Inclusion ("DERI") strategy
- Strong governance

Related risks

- Extreme weather
- Climate change
- Public perception
- Legal and regulatory





5 year Strategy – Read more on page 7

Customer centricity

We balance innovation and tradition and provide an easy-to-use service in a complex and competitive market. Our aim is always to deliver a customer service that exceeds customer expectations.

In addition:

- Our Design Space offices in Central London and Birmingham showcase the Group's brand leading capabilities and technical and design solutions for specifiers, designers and clients.
- The Design Spaces showcase the continual development of our product ranges and systems to ensure we remain at the forefront of innovation and technology within our industry.



Distribution >

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

Related risks

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

Customers >

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

Related risks

- Macro-economic and political
- Extreme weather
- Climate change
- Cyber security risks
- Competitor activity
- Legal and regulatory



< Innovation

Innovative product solutions for the Built Environment.

- Market innovation
- Product innovation
- Process innovation
- Materials innovation
- Digital innovation

Related risks

- Road infrastructure
- Cost inflation
- Environmental
- Climate change

Value creation

Shareholders



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

Dividend per share

4.30p

Customers



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

New products

8% of sales (2019: 12%)

Employees



Promotion of professional development, career opportunities and competitive benefit packages

Active apprenticeships in 2020

99

Links to strategy page 20

- Shareholder value
- Sustainable profitability
- Relationship building

Suppliers



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

Suppliers trained on anti-bribery and modern slavery

70%

Communities and environment



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

Commitment to reduce greenhouse gas emissions

40% by 2030

Government and regulatory bodies



R&D investment planned for 2021

£5m

- Organic expansion
- Brand development
- Effective capital structure and control framework



Engaging with our stakeholders

Our Section 172(1) Statement

The Board of Directors of the Company consider that they, both individually and collectively, have acted in a way that would be most likely to promote the success of the Company for the benefit of its members as a whole in the key decisions they have taken during the year ended 31 December 2020. In taking these key decisions, the Directors of the Company considered the factors specified in Section 172(1) of the Companies Act 2006 (the "Act") including:

- the likely long-term impact of any decisions;
- the interests of the Company's employees;
- the need to foster the Company's business relationships with suppliers, customers and others;
- the impact of the Company's operations on the communities in which it operates and the environment;
- the regulatory implications of any decisions;
- the importance of the Company maintaining a reputation for high standards of business conduct; and
- the need to act fairly as between members of the Company.

The Directors fulfil their duty by ensuring that there is a strong governance structure at Board level and throughout the Group, supporting the delivery of our longer-term strategy.

The COVID-19 pandemic has been the key area of focus during 2020 and the Board has taken a central role in deciding the Group's response. The Board governed with decisiveness and agility, meeting much more frequently and considering the interests of our key stakeholders and engaging with them.

A detailed COVID-19 case study is included on pages 56 and 57 which outlines the areas in which our response and decision making were focused, how we engaged with stakeholders, and the role governance and the Board played.

The fulfilment of the Board's duty under Section 172(1) sits alongside its consideration of the Group's capital structure and capital allocation policy and its resilience to existing and emerging risks (pages 24 to 26), which have all been reviewed in light of COVID-19. The Group's culture continues to be a particular focus of the Board (page 13) and is embodied in The Marshalls Way.

The Board has continued to engage with the business in specific areas such as new product development, digital strategy and marketing as well as participating in a virtual strategy day with the senior management team. In addition, Janet Ashdown, in her role as the designated Non-Executive Director for workforce engagement (page 82), continues to attend our Employee Voice Group, which has evolved during the year and whose agenda covers diverse areas such as the Group's ESG strategy, and the delivery of key engagement and development programmes.

The Group's focus on sustainability and ESG issues is relevant to our stakeholders and these are summarised in detail on pages 38 to 51. The Board is kept informed of all relevant issues by means of a number of written reports against agreed KPIs.

Shareholders

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

Why we engage

- To ensure that our strategy is aligned with the interests of shareholders
- To explain the Group's 5 year Strategy
- To explain the Group's ESG strategy and objectives
- To maintain a strong and sustainable dividend policy
- To increase the share price and total shareholder return

How we engage

- AGM, Annual Report, trading updates and presentations
- Regular phone calls, face to face meetings, site visits and investor roadshows
- Investor relations website – upgraded in 2020

Board engagement

- The Chair and Senior Independent Director held meetings with shareholders in November 2020
- Through regular feedback to the Board by the CEO and Group Finance Director and Investor Markets days
- Investor site visits and written consultations (e.g. in relation to policy)
- At the Company's AGM

Links to strategy



Customers

- We seek to exceed the expectations of customers
- We target very high levels of customer service
- We build customer service and health and safety performance into management and employee reward schemes
- In adopting The Marshalls Way, we embed customer experience and customer service into our business model
- We track all metrics and strive to obtain a world-class net promoter score

Why we engage

- To explain our strategy of customer centricity
- To maintain very high quality availability and delivery metrics
- To develop customer-focused solutions
- To become the supplier of choice
- To drive improvement and reduce complaints

How we engage

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

Board engagement

- Board presentations on customer centricity and customer initiatives
- Attending new product development updates
- Customer visits and meetings with sales teams
- Receiving updates on and engaging with our customer experience programme

Links to strategy





Links to strategy

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

Find our strategy on **pages 20 and 21**



5 year Strategy – Read more on **page 6**

Logistics excellence

We put customer wants and needs first with direct, informed and professional deliveries.

Our logistics operation has played a major role in supporting network changes and the full integration of both CPM and Edenhall.

A major priority has been to develop the logistics customer experience, and support the rollout of the E-commerce offer.

A nationwide training programme has equipped the logistics team to better understand the signs of modern slavery.

Employees

- We are a “Real Living Wage” employer
- We support employee progression through professional development
- We encourage share ownership and a significant, and increasing, number of employees either own, or have interests in, shares from our various schemes

Why we engage

- To ensure that all employees are valued and have a “voice”
- To ensure we maintain a motivated, skilled and technically competent workforce
- To ensure staff development
- To ensure ongoing focus on health and safety and employee wellbeing
- To encourage equal opportunities and diversity

How we engage

- Employee Voice Group represents all business areas and levels
- Regular communication across channels – supporting those employees working from home
- Annual Director “communication roadshow” programme of site visits and presentations. In 2020 many have been virtual
- Development training and succession planning
- People and culture strategy to unlock potential

Board engagement

- Board participation in the Employee Voice Group via Janet Ashdown, our designated Director
- Board attended strategy conference
- Regular reviews of HR and Group reward strategy
- Monthly health and safety reports
- Active engagement in workforce diversity, reward and recruitment

Links to strategy



Suppliers

- We are committed to ethical and sustainable procurement practice
- We balance economic requirements with environmental, social and ethical considerations over the whole lifecycle
- We have a global supply chain and maintain long-term partnerships
- We continue to focus on human rights and modern slavery

Why we engage

- To ensure use of the best quality raw materials and resources we can source
- To ensure security of supply and high supplier standards
- To ensure that our materials are sustainable and ethically sourced
- To ensure our human rights due diligence and monitoring is robust and effective

How we engage

- Effective, regular communication – underpinned by Code of Conduct
- Formal tenders and fair terms
- Supply chain risk mapping processes and regular audits
- ETI Base Code social and ethical audits
- Strategic partnerships with NGOs, ethical regulators and charities, e.g. “Hope for Justice”

Board engagement

- Feedback reports on supply chain compliance
- Regular supply chain and business continuity internal audit reviews. Supplier tendering internal audit in 2020
- Reports on ethical sourcing and ETI Base Code

Links to strategy



Communities and the environment

- We do business responsibly – The Marshalls Way
- We value our brand and a reputation built on transparency and proven sustainability expertise
- We have strong environmental objectives and targets – driven by our strategic commitments
- We are strongly committed to human rights

Why we engage

- ESG principles and responsible business provide the foundations for sustainable growth
- To recognise our role in society
- To ensure that environmental and social principles are embedded at all our sites
- To maintain adherence to all legislative and ISO requirements for environmental and energy management

How we engage

- Continue to support the UN Global Compact’s commitment to sustainable development
- We work with the Carbon Trust to analyse our business footprint and develop improvement strategies
- Regular dialogue with local community groups
- £183,000 raised for charitable and community causes in 2020

Board engagement

- Board actively engaged with the Group’s ESG and sustainability strategy – including the setting of science-based targets
- Receive regular updates on sustainability and new product development

Links to strategy



Government and regulatory bodies

- We operate within a framework for social and environmental policy
- We have a strong compliance and governance culture
- We conduct business in accordance with the principles set out in the Bribery Act 2010
- We are a constituent of the FTSE4Good index
- We maintain our Fair Tax Mark

Why we engage

- To ensure the highest standards of corporate governance
- To ensure the Group’s ongoing monitoring, training and compliance procedures meet best practice
- To ensure that we pay the right amount of tax at the right time
- To ensure that our business practices can deliver sustainable growth

How we engage

- Regular dialogue with Government, regulators and industry groups
- Active membership of the CPA and Mineral Products Association (“MPA”)
- Effective and clear policies against bribery and the elimination of modern slavery with training for staff and business partners

Board engagement

- Board provides direction to the support of the UN Global Compact’s principles, and policies relating to modern slavery and anti-bribery
- Board has been heavily engaged in the Group’s business continuity and COVID-19 planning and response

Links to strategy





Delivering sustainable growth

Our strategic pillars



Shareholder value

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

ROCE above 20%
over last 5 years

ROCE in 2020 8.2%

Our objectives

- To make strategic investments for organic growth and acquisitions.
- To strengthen the Marshalls brand by developing systems-based solutions and by promoting ESG values.
- To maintain a progressive dividend policy and a dividend cover of 2 times over the business cycle.

What we have achieved

- Market share gains during 2020.
- Improvements in operational efficiency across the manufacturing network.
- Full integration of CPM and Edenhall acquisitions.
- Strong growth in HY2 has supported the Group's market capitalisation (£1,495 million at 31 December 2020).
- Continued to exceed CPA growth forecasts.

Future priorities

- To grow ROCE and EBITDA.
- To deliver long-term sustainable shareholder value.
- Digital transformation.
- To promote strong ethical, environmental and corporate social responsibility principles.



Sustainable profitability

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

Domestic sales growth in HY2 of 9%

Our objectives

- To outperform the market.
- To deliver new and innovative product solutions.
- To invest in IT and lead the digital transformation.
- To drive through sustainable cost reductions.

What we have achieved

- Sustainable efficiency improvements arising from the operational restructuring programme in 2020.
- Continued to invest in R&D during 2020. Sales of new products in the core business were 8 per cent of total revenue in 2020.
- Increased the pace of the digital strategy in 2020.
- Increase in International sales of 16 per cent in 2020.

Future priorities

- To focus on new product development to drive growth.
- To improve operational efficiency across the manufacturing network.
- Logistics excellence.



Relationship building

To develop relationships with key stakeholders, installers and suppliers.

Customers that recommend Marshalls 83%

Our objectives

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

What we have achieved

- Dedicated "customer experience" team with strengthened relationships.
- 94 per cent customer service KPI in 2020, despite the impact of COVID-19.
- New Commercial and Domestic websites.
- New investor relations and sustainability websites.
- 1,900 registered installer teams.

Future priorities

- To improve communication and stakeholder engagement.
- To focus on the customer.
- To invest in digital technology to improve customer experience.
- Sustainable materials supply.



Our 5 year Strategy *Read more on page 6*

Brand preference for product specification

Read more on page 11

Logistics excellence

Read more on page 19

Sustainable materials supply

Read more on page 38

Customer centricity

Read more on page 17

**Organic expansion**

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

Capital investment planned for 2021

£30m

Our objectives

- To target growth areas such as New Build Housing, Road, Rail and Water Management.
- To invest in capital expenditure for organic growth.
- To increase sustainable profitability in the emerging businesses.
- To increase new product development.

What we have achieved

- Strong growth in Domestic sales in 2020.
- Significant growth in key focus areas whilst maintaining operational flexibility.
- Strong growth in New Build Housing revenue.
- Self-help capital investment of £42 million over the last 5 years.
- Reopening of the Maltby site to provide additional capacity.

Future priorities

- To optimise our national network of manufacturing sites.
- To grow our emerging businesses and increase their market share.
- To develop our global supply chain.

**Brand development**

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

R&D investment planned for 2021

£5m

Our objectives

- To focus on The Marshalls Way and our ESG priorities.
- Customer satisfaction – to be the supplier of choice.
- To lead the market on customer service and product quality.
- To maintain the highest health and safety standards.
- To pioneer the digital standard for our industry.

What we have achieved

- “Superbrand” status.
- Continued development of the Marshalls brand and product range.
- Introduced 132 new product ranges launched in the last 2 years.
- First company in the sector to have emission targets approved by the Science Based Targets initiative.

Future priorities

- To maintain the Group's market leading position.
- Responsible business and The Marshalls Way.
- ESG principles and responsible business.
- To support the UN Sustainable Development Goals.
- To increase brand preference to drive product specification.

**Effective capital structure and control framework**

To ensure that the capital structure remains aligned with the Group's corporate growth objectives.

Net debt:EBITDA*

Reported basis

1.3 times

Pre-IFRS 16

0.6 times

Our objectives

- To maintain a strong balance sheet, a flexible capital structure and a clear and fully aligned capital allocation policy.
- To maintain a flexible capital structure that recognises cyclical risk, focusing on security, efficiency and liquidity.

What we have achieved

- A conservative capital structure that maintains significant headroom against downside scenarios.
- Strong balance sheet with low gearing (26.3 per cent (9.3 per cent pre-IFRS 16)).
- Efficient portfolio of bank facilities with extended maturities and realigned headroom.
- Continued focus on working capital management and efficient inventory control.

Future priorities

- To operate tight control over business, operational and financial procedures.
- To maintain the target net debt:EBITDA ratio (on a reported, post-IFRS 16 basis) of between 0.5 and 1.5 times over the cycle. On a pre-IFRS 16 basis, this translates into a target of between 0 and 1 times.

* before operational restructuring costs and asset impairments

**Operational excellence**

Read more on [page 12](#)

New product development

Read more on [page 46](#)

Growth in the emerging businesses

Read more on [page 36](#)

Digital transformation

Read more on [page 26](#)



Measuring our performance

The Group's KPIs monitor progress towards the achievement of its objectives.

Revenue (£'m)

£469.5m

2020	469.5
2019	541.8
2018	491.0
2017	430.2
2016	396.9

Why is this KPI important?

Delivering sustainable growth is key to the Group's strategy. The aim is to outperform the market and grow market share.

Performance

Sales have recovered well in HY2 particularly in Domestic and International. Whilst Group revenue for the full year is down 13 per cent on the prior period, the decrease in total revenue in HY2 had improved to be only 1 per cent behind the 2019 comparative.

Links to strategy



Principal risks

- Further COVID-19 impact in 2021
- Macro-economic and political
- Customers
- Increased rate of digital change

Risk mitigation

- Close monitoring of trends and lead indicators
- Diversity of business
- Customer centricity
- Digital Strategy

Links to remuneration



Stakeholder linkage

- Customers
- Suppliers
- Employees
- Communities

Profit (£'m)

Profit before tax (before operational restructuring costs and asset impairments)

£22.5m

2020	22.5
2019	69.9
2018	62.9
2017	52.1
2016	46.0

Why is this KPI important?

Sustainable improvement in profitability is a strategic priority.

Performance

Profit before tax (before operational restructuring costs and asset impairments) was £22.5 million which was ahead of expectations. Trading in 2021 has started strongly.

Links to strategy



Principal risks

- Cyber security risks
- Competitor activity
- Security of raw material supply
- Climate change
- Further COVID-19 disruption

Risk mitigation

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

Links to remuneration



Stakeholder linkage

- Shareholders
- Employees

EPS (p)

EPS (before operational restructuring costs and asset impairments)

8.60p

2020	8.60
2019	29.36
2018	26.29
2017	21.52
2016	18.95

Why is this KPI important?

EPS growth is a strategic target.

Performance

Group EPS (before operational restructuring costs and asset impairments) was 8.60 pence.

Links to strategy



Principal risks

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

Risk mitigation

- Supply chain management
- Logistics excellence

Links to remuneration



Stakeholder linkage

- Shareholders
- Employees

ROCE (%)

ROCE (before operational restructuring costs and asset impairments)

8.2%

2020	8.2
2019	21.4
2018	21.9
2017	20.8
2016	23.0

Why is this KPI important?

ROCE is an important indicator of sustainable shareholder value.

Performance

Group ROCE for 2020 is 8.2 per cent (2019: 21.4 per cent). ROCE is defined as EBITA / shareholders' funds plus net debt (before operational restructuring costs and asset impairments).

Links to strategy



Principal risks

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

Risk mitigation

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

Links to remuneration



Stakeholder linkage

- Shareholders
- Employees



Links to strategy

- Shareholder value
- Sustainable profitability
- Relationship building

- Organic expansion
- Brand development
- Effective capital structure and control framework

Links to remuneration

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

Find our strategy on **pages 20 and 21**

Net debt (£)

Pre-IFRS 16 Reported basis
£26.9m **£75.6m**

(26.9)	2020
(18.7)	2019
(37.4)	2018
(24.3)	2017
	2016 5.4

Why is this KPI important?

Marshalls continues to support a prudent capital structure. The strategic target is for the ratio of net debt to EBITDA to be between 0.5 and 1.5 times over the business cycle, on a reported basis.

Performance

Net debt was £75.6 million at 31 December 2020 (£26.9 million on a pre-IFRS 16 basis). Gearing remains low at 26.3 per cent (9.3 per cent on a pre-IFRS 16 basis).

Links to strategy



Principal risks

- Funding strategy
- Overpaying for acquisitions
- Cost inflation

Risk mitigation

- Flexible capital structure
- Conservative financial profile

Links to remuneration



Stakeholder linkage

- Shareholders
- Employees
- Customers
- Suppliers

Dividend per share (recommended, p)

4.30p

2020 4.30
2019 4.70
2018 12.00
2017 10.20
2016 8.70

Why is this KPI important?

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

Performance

The Board is recommending the reinstatement of a full final dividend of 4.30 pence for the year ended 31 December 2020.

Links to strategy



Principal risks

- Macro-economic environment
- Reduction in revenue and profitability

Risk mitigation

- Clear corporate strategy
- Capital allocation policy

Links to remuneration



Stakeholder linkage

- Shareholders

Customer service index (%)

94%

2020 94
2019 98
2018 98
2017 98
2016 98

Why is this KPI important?

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

Performance

Despite the impact of COVID-19, the combined customer service measure averaged 94 per cent throughout 2020.

Links to strategy



Principal risks

- Quality, service and reliability
- Brand reputation
- Further COVID-19 disruption

Risk mitigation

- Customer centricity strategy
- Digital trading

Links to remuneration



Stakeholder linkage

- Customers
- Communities
- Environment

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

12.2%

2020 12.2
2019 14
2018 17
2017 46
2016 20

Why is this KPI important?

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

Performance

In 2020 there was a 12.2 per cent reduction in days lost from workplace incidents compared with the target benchmark.

Links to strategy



Principal risks

- Consistency of standards
- Regulatory controls
- Investment in operation network
- Extended COVID-19 restrictions
- Mental health and employee wellbeing

Risk mitigation

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

Links to remuneration



Stakeholder linkage

- Employees
- Customers
- Communities
- Environment



Managing risk to deliver our strategic objectives

Managing risk to meet the challenge of the COVID-19 pandemic and to deliver long-term sustainable improvement in shareholder value. All risks are aligned with the Group's strategic objectives.

Achievements in 2020

The Group's risk function has focused on the impact of COVID-19 on the business and its underlying risks. In each of the following key risk areas mitigating controls have been introduced, as appropriate, and additional scenario planning has been undertaken:

- health and safety – frequent and consistent messaging with mental and physical health prioritised, and social distancing and health and safety procedures instigated;
- significantly reduced sales in Q2 – maximised efficiency and operational flexibility in order to ensure that the vehicle fleet could continue to operate safely and meet customer demand;
- liquidity – new bank facilities arranged and covenant support received from our partner banks in order to maintain comfortable headroom against severe downside scenarios;
- information technology – business continuity maintained throughout, with practical support and additional cyber security training to facilitate home working;
- control environment – key financial and operational controls maintained, and often enhanced, to meet the requirements of working from home; and
- medium-term strategy – built-in flexibility in the strategy ensured effective response to changing external circumstances.

KPMG completed a number of targeted internal audit projects during 2020 including a specific review of the design, monitoring and governance arrangements surrounding the controls which operated in response to the COVID-19 restrictions. Other internal audits during the year included the controls and governance surrounding the integration of the Edenhall business, recruitment procedures, commercial tendering and cyber security. Cyber risk continues to increase despite the Group's further extension of mitigation controls. It has remained a major focus area for risk assessment.

Priorities for 2021

The priorities for the Group's risk function in 2021 include the following areas:

- The potential impact of extended economic and political uncertainty arising from both extended COVID-19 issues and restrictions and from the changes and consequences arising from Brexit. During 2020, proactive supply chain management and contingency planning have continued to mitigate these risks.
- Health and safety remains a major focus area and 2021 will see additional governance and control reviews.

- The completion of a number of targeted projects will again be a major focus for KPMG. In 2021, projects covering cyber risk, business continuity, disaster recovery, general IT controls, payroll systems and controls, the accounts receivable function, GDPR compliance, digitalisation and ESG are planned.
- Addressing the risk of climate change and the protection of the environment continues to demand increased focus. Our ESG agenda and the generation of detailed plans and comprehensive policies is a key priority area.

Approach to risk management

Risk management is the responsibility of the Board and is a key factor in the delivery of the Group's strategic objectives. The Board establishes the culture of effective risk management and is responsible for maintaining appropriate systems and controls. The Board sets the risk appetite and determines the policies and procedures that are put in place to mitigate exposure to risks. The Board plays a central role in the Group's risk review process, which covers emerging risks and incorporates scenario planning and detailed stress testing.

Process

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

The Group Risk Register is reviewed and updated by the Board and the full Executive Management team at least every 6 months and the overall process is the subject of regular review. Risks are recorded with a full analysis and risk owners are nominated who have authority and responsibility for assessing and managing the risk. KPMG, as the Group's internal auditor, regularly attends the risk review meetings. The conclusion of KPMG is that the process continues to be a robust mechanism for monitoring and controlling the Group's principal risks and for challenging the potential impact of new emerging risks. All risks are aligned with the Group's strategic objectives and each risk is analysed in terms of likelihood and impact to the business and the determination of a "gross risk score" enables risk exposure to be prioritised.

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

The Group has a formal framework for the ongoing assessment of operational, financial and IT-based controls. The overriding objective is to gain assurance that the control framework is complete and that the individual controls are operating effectively.



Risk management framework

The Board:

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

The Audit Committee:

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

Executive Directors:

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

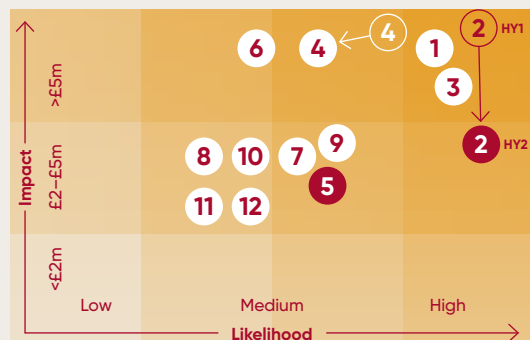
Internal audit:

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

Operational managers:

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

Risk heatmap (net risk scores)



- Macro-economic and political
- Further COVID-19 waves – risk of further short-term disruption
- Cyber security risks
- Security of raw material supply
- ESG focus and increasing requirements
- Climate change (including the impact of weather events)
- Threat from new technologies & business models (increased pace of digital change)
- Corporate, legal and regulatory
- Competitor activity
- Customers
- Health and safety
- People risks

* New to top 12.

Additional independent verification checking of key controls and reconciliations is undertaken on a rolling basis. Such testing includes key controls over access to, and changing permissions on, base data and metadata.

Risk appetite

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

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

Viability Statement

After considering the principal risks on pages 24 to 31, the Directors have assessed the prospects of the Group over a longer period than the period of at least twelve months required by the "going concern" basis of accounting. The Directors consider that the Group's risk management process satisfies the requirements of provision 31 of the UK Corporate Governance Code.

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

The Group's 5 year Strategy confirms the objectives and priorities over this five-year period and has addressed appropriate risks and opportunities. For the purposes of the Viability Statement, however, the Board continues to believe that three years is an appropriate period of assessment and considers that it has reasonable visibility of the market over a three-year period to 31 December 2023. The Group's strategic plan includes an integrated model that incorporates the Income Statement, balance sheet and cash flow projections.

The stress testing reflects the principal risks that could conceivably threaten the Group's ability to continue operating as a going concern and focuses on scenarios that might give rise to sales volume reductions, deteriorating operating margins and increases in interest rates. The impact of COVID-19, Brexit uncertainty and a general background macro-economic and political uncertainty all remain and combine to be the key risk areas and all of the Group's other principal risks are covered within the same downside stress tests.

The stress testing applied in 2020 has taken full account of COVID-19 and continuing Brexit uncertainty. After the lockdown at the end of March, the Group prepared a series of downside scenario models – comprising integrated P&L, balance sheet and cash flow modelling covering the period until the end of 2021. A range of downside models were prepared covering different levels of sales reduction, over different periods and for different lengths of time. Certain models also had slower degrees of recovery during 2021.

**Viability Statement continued**

Each downside scenario factored in the cash benefit of expected short-term furlough arrangements and the utilisation of the UK Government's tax deferral schemes (covering VAT and other taxes). In addition, the short-term cash forecasts benefited from the impact of lower corporation tax payments, assumed reductions in capital expenditure and no dividend payments in both June 2020 and December 2020.

In each scenario model, there was significant headroom (compared with the new bank committed facilities) at the deepest downside point.

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, with a twelve-month extension option. These additional facilities comprised £90 million and significantly strengthened the Group's headroom. All our banking partners continue to be supportive and recognised that the impact of COVID-19 is a short-term issue and going forward they remain of the opinion that Marshalls will continue to be in a strong market position once the short-term impacts of the pandemic are behind us. Since the half year, trading has been significantly better.

A further significant stress test sensitivity has been run at the end of 2020 against the base medium-term forecast. The stress test assumes a sales revenue sensitivity of 20 per cent over each of the next two years (cumulatively 64 per cent against forecast 2020 revenue) – with current growth rates assumed to apply on the revised base position from 2023. In the wake of COVID-19, the stress testing has used sales volume and margin sensitivities that aim to replicate the impact of the last sustained recession and are similar to the reductions that took place between 2007 and 2009. This sensitivity leads to a reduction in revenue of around £300 million over 2021 and 2022 and, over the same two-year period, leads to a reduction in operating margin to 5.5 per cent in 2022. This is well in excess of the reduced revenue experienced in 2020 as a consequence of COVID-19.

None of the individual sensitivities applied impact the Directors' assessment of viability.

Even under the deep stress test all bank covenants are met and the gearing and net debt: EBITDA metrics remain sustainable. The Group would undertake significant mitigation measures in a deep downturn and this would create additional contingency.

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

In relation to Brexit, further delays in the transition process or issues surrounding the negotiation of trade agreements could trigger renewed weakness in Sterling, a reduction in consumer confidence and a further slowdown in the UK economy. Marshalls continues to have strong market positions and a strategy of targeting those market areas where growth prospects are greatest. The potential impact of wider economic and political uncertainties has been considered in the assessment of risk 1 on page 27. This assessment has included significant stress testing of financial models and risk mitigation measures within the Group's supply chain. The Group has developed a detailed Brexit plan to mitigate the risk of raw material shortages.

Principal risks and uncertainties

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

The COVID-19 pandemic has inevitably challenged the Group's risk framework and the effectiveness of mitigation controls. Certain significant risks and uncertainties have changed in comparison to prior years and the Group's procedures and controls have held up well. In August 2020, KPMG undertook an internal audit review of the Group's response to COVID-19 in relation to controls and governance. The audit's conclusion was that Marshalls' response to COVID-19 was underpinned by good governance. Key controls in high risk areas, such as resource planning, supplier terms, financial modelling and forecasting, were supported by higher levels of scrutiny and stakeholders were consulted throughout. Controls were redesigned in response to the logistical challenges of home working.



5 year Strategy – Read more on [page 6](#)

Digital transformation**Accelerated progression of digital transformation in 2020**

Our digital investment is not only "future proofing" the business, but has enabled core functions to run efficiently during the pandemic.

Significant development in 5 key areas:

- **workplace productivity** – using digital technologies to reduce face to face interactions and safeguard employee health and wellbeing;
- **operational improvement** – automation and artificial intelligence to digitise process;
- **customer experience** – visualisation and QR technologies to provide on-line product certainty and contactless delivery;
- **digital revenue** – supporting omni-channel sales and the rise of E-commerce; and
- **enterprise agility** – cloud-based, real time technologies to facilitate an agile mindset to operate and innovate quickly.

The Group's digital strategy is a key growth driver but also provides an important element of risk mitigation.

**Links to strategy**

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

Find our strategy on **page 20**

Impact on business model

- Sourcing
- Manufacturing
- Distribution
- Customers
- Innovation
- Sustainability

Find our business model on **page 16**

Nature of risk and potential impact

Key risk indicators

Mitigating factors

Change

1. Macro-economic and political

The Group is dependent on the level of activity in its end markets. Accordingly, it is susceptible to economic downturn, the impact of Government policy, interest rates, volatility in world markets and any continuing issues following the UK's departure from the EU.

Potential impact

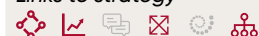
The potential longer-term impact of Brexit or wider global macro-economic tension and uncertainty could lead to lower activity levels which could reduce sales and production volumes. This could have an adverse effect on the Group's financial results. The impact of supply chain issues, exchange rate fluctuations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

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

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

No change in risk

The sharp reduction in sales due to COVID-19 in the second quarter of 2020 was reversed from quarter three and the second half of the year saw significant sales growth and increase in activity levels throughout the sector. The UK Government's stated objective is to support construction and manufacturing to fuel economic growth and significant investment support for infrastructure and housing has been announced. There continues to be volatility in world markets and global economic uncertainty continues to be a risk.

Links to strategy**Impact on business model****2. Prolonged impact and further waves of the COVID-19 virus**

Continued disruption caused by further longer-term effects of COVID-19 giving rise to further lockdowns and Government restrictions.

Potential for further waves caused by new virus variants.

Potential impact

Longer than expected disruption could lead to prolonged uncertainty and lower activity levels which could reduce sales and production volumes. This could have an adverse effect on the Group's financial results.

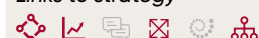
The requirement for longer-term home working could give rise to increased wellbeing or mental health issues.

- Government policy and delays in the full implementation of the vaccine programme.
- Delays in the awarding and completion of contracts.

- The Group closely monitors trends and lead indicators.
- The Group has detailed business continuity plans to maintain flexibility and appropriate working practices and procedures.
- The Group undertakes ongoing scenario planning to assess business resilience and risks that could lead to business disruption.
- The Group focuses on communication with employees and other stakeholders, and maintains strong customer and supplier relationships.

Increased risk

Trading recovered strongly in the second half of 2020 and this has continued into the first quarter of 2021. Construction and manufacturing have been designated as essential industries and the Group has already demonstrated strong business resilience. However, further delays could generate renewed uncertainty.

Links to strategy**Impact on business model**



Nature of risk and potential impact

Key risk indicators

Mitigating factors

Change

3. Cyber security risks

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

Potential impact

Risk of data loss causing financial and reputational risk.

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

- Use of IT security policies.
- Regular cyber security risk audits undertaken by specialists and the use of mitigation controls and other recommended procedure updates. The Group's "cyber maturity assessment" score has increased during the last year and Marshalls is accredited with "Cyber Essentials" approval.
- Restriction of sensitive data to selected senior and experienced employees who are used to handling such data.
- Appropriate tools and training procedures are in place to protect sensitive data when stored and transmitted between parties (e.g. encryption of hard drives, restricted USB devices, secure data transmission mechanisms and third party security audits).
- A continuous programme of awareness training for staff.

No change in risk

Cyber risk has increased during the COVID-19 pandemic. This remains a high profile area and considerable focus continues to be given to promoting awareness of IT security policies. The risk is mitigated by the extension of controls. The risk is fast growing and indiscriminate and the perception is that the risk of data loss through new (or as yet unseen) security threats continues to increase.

Links to strategy**Impact on business model****4. Security of raw material supply/raw material shortages**

Although the UK has now left the EU, there remains a risk to the security of raw material supply and the risk of shortages in some areas. Changes in the market for certain raw materials have created an increased reliance on imports.

The Group is susceptible to tariffs for certain commodities and significant increases in the price of raw materials, utilities, fuel oil and haulage costs and decreases in vehicle availability. Longer-term risk of "carbon taxation".

Potential impact

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

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

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

No change in risk

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

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

Links to strategy**Impact on business model**



Nature of risk and potential impact

Key risk indicators

Mitigating factors

Change

5. ESG focus and increasing requirements

Increasing focus on ESG and the heightened awareness of environmental challenge which is translating into politics and consumer behaviour.

Risk of allocating insufficient resource and investment to support the science-based targets and other environmental protocols.

Mandatory human rights disclosure from 2022 and increased focus on modern slavery and diversity reporting.

Potential impact

Hardening targets and greater consideration amongst investor and stakeholder groups. Risk that investors and customers could reduce support if the Group failed to improve performance against targets or did not report appropriately. Risk of customers switching products away from those with a higher carbon footprint.

- Negative feedback from stakeholders – loss of business and investment due to lack of preparedness.
- Failure to meet internal targets.

- The Group utilises experienced, specialist staff to support the Group's focus in this area.
- Agreed carbon reduction plan and a set of KPIs established.
- The Group is committed to the Science Based Targets initiative.
- Working groups established in all focus areas and controls being progressively embedded across the business.

Increased risk

Significantly heightened focus from stakeholders, Government, customers and investors and increased operational and reporting requirements.

Links to strategy



Impact on business model



6. Climate change (including the impact of weather events)

The increase in frequency and impact of extreme weather events such as flooding, drought and coastal erosion.

The longer-term implications of climate change give rise to the transition risk to address the challenges quickly enough.

Potential impact

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

The cost impact of the "Environmental Protocol" and mitigation programmes could lead to increasingly expensive processes.

Financial risk caused by adverse impact on margins and cash flows as well as sales and production volumes.

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

- The Group utilises centralised specialist functions to support mitigation plans and the management of relationships on commercial contracts.
- Climate change risk analysis in place.
- We are committed to water harvesting and recycling schemes and have an environmental target of not using any mains schemes.
- The development of resilience strategies for climate change is a key element of the Group's Climate Change Policy.
- The development of the Group's Water Management business and the continuing focus on new product development.

No change in risk

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

Significant increase in public awareness of climate change.

Links to strategy



Impact on business model





Risk Management and Principal Risks continued

Nature of risk and potential impact

Key risk indicators

Mitigating factors

Change

7. Threat from new technologies and business models, and the increased pace of digital change in the market

Reduction in demand for traditional products. Risk of new competitors and new substitute products appearing.

Failure to react to market developments, including digital and technological advances.

Potential impact

The increased competition could reduce volumes and margins on traditional products. Despite significant additional focus made by the Group in this area in recent years, there remains a risk that a new third party could use emerging digital technology to enter the market and transition more quickly and effectively.

- Less demand for traditional products and routes to market.

- Emergence of new competitors and new digital business models.

- More widespread availability of artificial intelligence technology.

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

No change in risk

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

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

Links to strategy**Impact on business model**

8. Corporate, legal and regulatory

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

Potential impact

Significant increases in the penalty regime across all areas of business (e.g. health and safety, competition law, the Bribery Act and GDPR) could lead to significant fines in the event of a breach.

A health and safety or environmental incident could lead to a disruption to production and the supply of products for customers. Such incidents could lead to prosecutions and increased costs and have a negative impact on the Group's reputation.

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

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

No change in risk

The significant increase in governance and regulation continues to require additional management focus and robust compliance procedures within all areas of the business.

Links to strategy**Impact on business model**

9. Competitor activity

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

Potential impact

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

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

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

No change in risk

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

Links to strategy**Impact on business model**



Nature of risk and potential impact

Key risk indicators

Mitigating factors

Change

10. 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.

Potential impact

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

- Changes to market structure or trading relationships.
- New customer strategies.
- Customer feedback and changing expectations.

- 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.
- We invest in market research to ensure that we have a strong understanding of end user requirements and the quality of our distribution network.

No change in risk

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

Links to strategy



Impact on business model



11. Health and safety

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

Ongoing risks in relation to COVID-19 and the need to maintain safe working environments.

Ongoing welfare and mental health of employees.

Potential impact

Risk of harm to all stakeholders, including on-site employees and subcontractors.

Negative impact of working from home for certain employees.

Significant increases in penalty regime could lead to significant fines and prosecution.

A major incident could lead to a disruption to production and a negative impact on the Group's reputation.

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

- Centralised specialist functions.
- Regular communication and support for employees, including those working from home. Mental health first aiders. "Return to work" strategy and policies in place.
- Comprehensive five-year health and safety strategy.
- Ongoing monitoring, training and health and safety audits.
- All senior managers receive the Marshalls Health and Safety and Environmental stage three training.

No change in risk

Health and safety continues to be a high profile risk area. Increased risks arising from COVID-19, including mental health and employee welfare.

Links to strategy



Impact on business model



12. People risks

Ongoing risks and requirements concerned with training, development and succession planning. Implications of technological change and automation.

Welfare and mental health related risks associated with the COVID-19 pandemic.

Potential impact

- Risk of reduced skills and inadequate training potentially leading to reduced productivity and efficiency.
- Implications for employee health and wellbeing and overall workforce morale.
- Potential risk to the Marshalls brand.

- Skill shortages and lack of diversity within the workforce.
- Increased stress levels within workforce leading to employee absenteeism.
- Increased levels of staff turnover.

- Focused Human Resources department with experienced staff and specialist skills.
- Strong employee and trade union relationships.
- Strong communication channels and employee feedback through the Employee Voice Group.
- Regular feedback questionnaires supported by a third party provider.
- Independent "Safecall" employee helpline.
- Focus on training, apprenticeships and ongoing staff development and leadership potential.

No change in risk

The impact of COVID-19 has created new challenges for employees with changed working requirements, health and safety regulations and operational working practices. These include issues that could give rise to heightened employee wellbeing issues and risks to mental health.

Links to strategy



Impact on business model





Well placed to return to growth



"Marshalls' liquidity remains strong and will support investment priorities going forward."

Summary

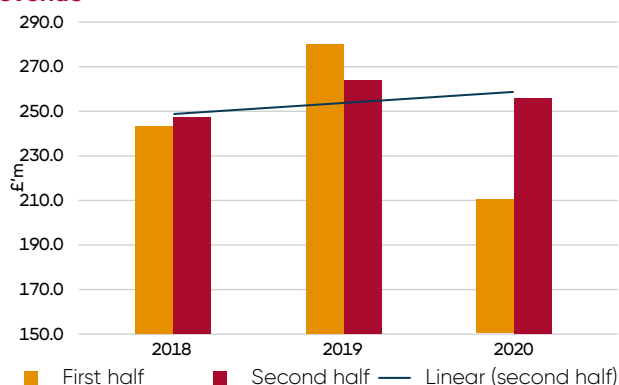
- Domestic sales up 9% in second half of 2020
- Public Sector and Commercial improving – focus on growth sectors
- International sales up 16% in the year
- Full year revenue of £469.5 million (2019: £541.8 million)
- Strong cash flow – all Government COVID-19 financial support repaid
- Significant headroom against bank facilities
- Net debt:EBITDA of 0.6 times at 31 December 2020 (2019: 0.2 times) on a pre-IFRS 16 basis
- Capacity of investment – £20 million investment in dual block plant at St Ives to commence in 2021
- Reinstatement of dividend – 4.30 pence for 2020

Trading summary

Revenue

In the early part of the COVID-19 outbreak, sales were hit significantly. Group sales in April 2020 were down 66 per cent compared with the prior year. By the half year trading had improved, with sales in June down 7 per cent compared with the prior year. Revenue growth in the second half of the year recovered quickly and by the final quarter was ahead of the comparative figures for 2019. Group revenue for the year ended 31 December 2020 was down 13 per cent at £469.5 million (2019: £541.8 million).

Revenue



Revenue analysis

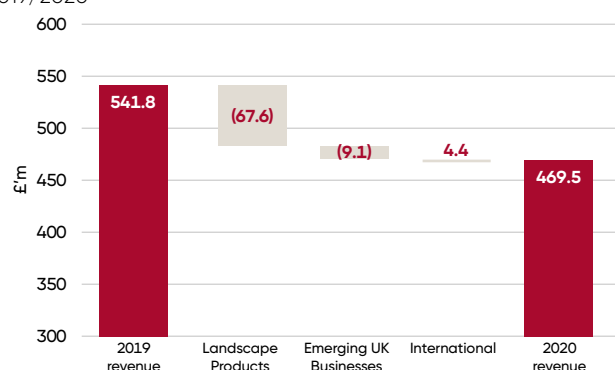
The Domestic end market has remained strong, with sales up 9 per cent in the six months ended 31 December 2020 compared to the same period last year. Sales in the Public Sector and Commercial end market for the six months ended 31 December 2020 were 6 per cent down compared with 2019. This compares with the first six months of the year when sales were down 28 per cent. Sales in the International business have been particularly strong, and during the six months ended 31 December 2020 increased by 18 per cent, supported by strong sales from Marshalls NV in Belgium.



Analysis of sales by end market	2020			2019			Change	
	HY1 £'m	HY2 £'m	Full year £'m	HY1 £'m	HY2 £'m	Full year £'m	HY2 %	Full year %
UK Domestic	58.1	70.6	128.7	76.5	64.6	141.1	9%	-9%
Public Sector and Commercial	134.8	174.7	309.5	188.2	185.6	373.8	-6%	-17%
International	17.6	13.7	31.3	15.4	11.5	26.9	18%	16%
	210.5	259.0	469.5	280.1	261.7	541.8	-1%	-13%
	%	%	%	%	%	%		
UK Domestic	27.4%	27.2%	27.4%	27.3%	24.6%	26.0%		
Public Sector and Commercial	64.2%	67.5%	65.9%	67.2%	71.0%	69.0%		
International	8.4%	5.3%	6.7%	5.5%	4.4%	5.0%		

Revenue variance analysis

2019/2020



Public Sector and Commercial

Marshall's strategy continues to deliver sustainable integrated solutions to customers, architects and contractors. The aim is to generate demand through a brand and customer experience that drive product specification. The Group's technical and sales teams use a full suite of digital technologies to make the customer experience as frictionless as possible. Digital technology is increasingly used to showcase new concepts and designs and to facilitate the selection and specification of our ranges.

We remain focused on those market areas where future demand is considered to be greatest including New Build Housing, Road, Rail and Water Management. The Group continues to outperform the market in these areas. Public Sector and Commercial revenue represented approximately 66 per cent of Group sales.

Domestic

The strong sales reflect an increased demand for DIY projects, with many Domestic customers now having increased capacity to invest in home and garden projects. We continue to see an increasing trend towards the "Don't Move, Improve" part of the Domestic end market. Sales to the UK Domestic end market now represent approximately 27 per cent of Group sales.

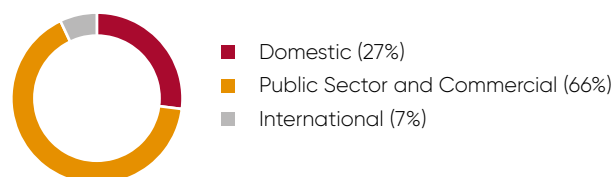
Installer order books at the end of February 2021 were strong at 12.2 weeks (February 2020: 10.7 weeks), compared with 12.8 weeks at the end of October 2020. The Group's industry leading standards remained high during the year and we continue to have market leading geographical coverage. Our strategy continues to be to drive more sales through the Marshall's Register of approved domestic installers which comprises approximately 1,900 teams. The objectives continue to be

to develop the customer experience by digitalisation, including the use of visualisation tools, and commitment to innovation. The Group continues to receive good feedback for its consistently high standard of quality, excellent customer service and marketing support.

International

Sales to International markets increased by 16 per cent in the year and are now 7 per cent of Group sales, supported by strong sales from Marshall's NV in Belgium. Our Belgium business has become profitable for the first time during 2020. We continue to develop our global supply chains to ensure that they are sustainable and aligned with market opportunities.

Revenue analysis: business area (%)



Revenue by area (%)



Operating profit

Operating profit, before operational restructuring costs and asset impairments, was £27.2 million (2019: £73.7 million). After operational restructuring costs and asset impairments of £17.8 million, the reported operating profit was £9.4 million (2019: £73.7 million). The restructuring exercise in the second quarter of the year included the closure of manufacturing sites at Falkirk, Livingston and Llan and other operational changes. A summary of these costs is set out below and these measures taken will reduce annual costs by approximately £12 million.

Restructuring costs	£'m
Works closure costs	4.5
Redundancy	7.8
Asset impairments	5.5
	17.8

**Operating profit continued**

Reported EBITDA, before operational restructuring costs and asset impairments, was £57.6 million, and basic earnings per share, before operational restructuring costs and asset impairments, was 8.60 pence (2019: 29.36 pence) per share. The table below illustrates the improved performance in the second half of the year.

Trading results	2020			2019			Change	
	HY1 £'m	HY2 £'m	Full year £'m	HY1 £'m	HY2 £'m	Full year £'m	HY2 %	Full year %
EBITDA*	18.2	39.4	57.6	54.9	49.0	103.9	-20	-45
Depreciation/amortisation	(14.7)	(15.7)	(30.4)	(15.9)	(14.3)	(30.2)		
Operating profit*	3.5	23.7	27.2	39.0	34.7	73.7	-32	-63
Operational restructuring costs and asset impairments	(17.6)	(0.2)	(17.8)	—	—	—		
Operating (loss)/profit (reported)	(14.1)	23.5	9.4	39.0	34.7	73.7		

* Before operational restructuring costs and asset impairments.

Profit margins

The chart below illustrates that the Group's operating profit percentage decreased from 13.6 per cent in 2019 to 5.8 per cent in 2020. However, in the second half of the year operating profit is after charging £9.4 million in respect of the repayment of furlough. The operating margin in H2 2020 increased to 12.8 per cent, if calculated on a consistent, pre-furlough repayment basis.

Margin analysis	Revenue £'m	Operating profit £'m	Margin impact %
2019	541.8	73.7	13.6
Landscape Products	(67.6)	(44.6)	(7.5)
Emerging UK Businesses	(9.1)	(4.0)	(0.5)
International	4.4	2.1	0.2
2020	469.5	27.2	5.8

The Group continues to drive through cost and efficiency benefits arising from the restructuring programme implemented in the second quarter of 2020 and aims to deliver additional opportunities and synergy benefits arising from the integration of CPM and Edenhall.

The Group's Landscape Products business is a reportable segment servicing both the UK Public Sector and Commercial and UK Domestic end markets. Those businesses that are not large enough to comprise separate operating segments include Marshalls Landscape Protection and Mineral Products and they continue to be a key strategic focus and a positive driver for growth.

Net financial expenses

Net financial expenses were £4.7 million (2019: £3.8 million), including £1.6 million (2019: £1.3 million) of IFRS 16 lease interest. On a reported basis interest was covered 5.8 times (2019: 19.2 times), before operational restructuring costs and asset impairments. Interest charges on bank loans totalled £3.0 million (not £3.1 million) and, including scheme administration costs, there was an IAS 19 notional interest charge of £0.2 million (not £0.3 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 23.1 per cent (2019: 17.1 per cent), before operational restructuring costs and asset impairments. The 2019 Budget announced that the UK corporation tax rate will remain at 19 per cent from 2020 rather than reduce to 17 per cent, which had previously been confirmed. This change was substantively enacted on 17 March 2020 and, consequently,

the deferred taxation liability at 31 December 2020 has been calculated at 19 per cent, which is the rate at which the deferred tax is expected to unwind in the future using rates enacted at the balance sheet date. This rate change has given rise to an increase to the deferred tax charge of £1.8 million. This has given rise to the increase in the effective tax rate.

The Group has paid £4.6 million (2019: £9.0 million) of corporation tax during the year. A deferred tax credit of £2.1 million in relation to the actuarial loss arising on the defined benefit pension scheme in the year has been taken to the Consolidated Statement of Comprehensive Income.

For the seventh year running, Marshalls has been awarded the Fair Tax Mark, which recognises social responsibility and transparency in a company's tax affairs. The Group's tax approach has long been closely aligned with the Fair Tax Mark's objectives and this is supported by the Group's tax strategy and fully transparent tax disclosures. Taking into account not only corporation tax but also PAYE and NI paid on our employee wages, aggregate levy, VAT, fuel duty and business rates, Marshalls has funded total taxation to the UK economy of £69 million in the year ended 31 December 2020.

Dividends

The Group's stated objective is that "the Group has a progressive dividend policy with the objective of achieving two times dividend cover over the business cycle. As earnings increase we plan to share the increase between strengthening cover and progressively raising the rate of dividend." A progressive dividend policy remains a key objective.

The 2019 final and supplementary dividends that would have been paid in June 2020 were withdrawn and an interim dividend for 2020 was also not proposed. The Board has confirmed its intention to reinstate dividend payments and is now recommending that a final dividend of 4.30 pence be paid for 2020. This will be payable on 1 July 2021.

The Group intends to return to the stated policy of two times cover for the year ending 31 December 2021. Supplementary dividends are, by definition, discretionary and would only be reintroduced once the economic outlook supported this. Dividend payments will continue to be aligned with appropriate caution and stewardship but reflect our stated strategy and capital allocation policy.

Net debt

Net debt, on a pre-IFRS 16 basis, was £26.9 million at 31 December 2020 (2019: £18.7 million). This was significantly better than expected and is after the repayment of £9.4 million of furlough and £11.3 million of deferred VAT in the final quarter of the year. All Government COVID-19 financial assistance has been repaid. Reported net debt was £75.6 million at



31 December 2020 (2019: £60.0 million). The ratio of net debt to EBITDA was 1.3 times at 31 December 2020 (2019: 0.6 times) on a reported basis, and 0.6 times (2019: 0.2 times) on a pre-IFRS 16 basis. Both are comfortably within our target ranges and well below covenant levels.

Cash generation

Reported net cash flows from operating activities were £19.3 million (2019: £88.1 million).

The Group's strong cash generation has continued, with operating cash flow in H2 2020 representing 93.6 per cent on a pre-IFRS 16 basis. The Group continues to prioritise the close control of inventory and the effective management of working capital. Debtor days remain industry leading due to continued close control of credit management procedures. The Group maintains credit insurance which provides excellent intelligence to minimise the number and value of bad debts and ultimately provides compensation if bad debts are incurred. We do not engage in debt factoring. The Group complies with prompt payment guidelines and best practice and abides by a clearly defined payment policy which has been agreed with all major suppliers.

Group cash flow	2020 £'m	2019 £'m
Net cash from operating activities	19.3	88.1
Net cash from investing activities	(3.3)	(22.4)
Net cash from financing activities	(16.5)	(47.2)
Movement in net debt in the year	(0.5)	18.5
Exceptional restructuring costs	(6.9)	–
Foreign exchange	(1.2)	(0.1)
IFRS 16 lease liabilities	(7.0)	(41.0)
Net debt at beginning of year	(60.0)	(37.4)
Net debt at end of year	(75.6)	(60.0)

Cash outflow on capital expenditure in the year was £14.7 million (2019: £22.9 million). This included self-help growth expenditure and the replacement of existing assets, business improvements and new process technology.

Group cash flow	2020 £'m	2019 £'m	Last 5 years (pre-IFRS 16) £'m
Net cash from operating activities	19.3	88.1	251.2
Capital expenditure	(14.7)	(22.9)	(101.4)
Proceeds from the sale of surplus property assets	11.4	0.5	21.2
Acquisition of subsidiary undertakings	–	–	(60.9)
Lease payments	(13.8)	(12.7)	–
Share issues/share-based payments	–	0.2	(2.9)
Payments to acquire own shares	(2.7)	(1.5)	(6.4)
Dividends	–	(33.2)	(105.5)
Movement in net debt	(0.5)	18.5	(4.7)

The table above also provides a medium-term five-year analysis of the cash generation capacity of the Group and how cash has been invested to grow the business and also to show the cash returned to shareholders. The five-year analysis has

been disclosed on a pre-IFRS 16 basis to ensure comparability. Cash generated from operating activities was £251.2 million on a pre-IFRS 16 basis. The Group has invested £101.4 million back into the business to generate growth, improve productivity and provide industry leading manufacturing facilities. The Group has also invested £60.9 million in the targeted acquisitions of CPM and Edenhall. Dividends to shareholders over the last five years have totalled £105.5 million, which equates to 42 per cent of net cash generated from operating activities.

Return on capital employed ("ROCE")

ROCE was 8.2 per cent (2019: 21.4 per cent), before operational restructuring costs and asset impairments, at 31 December 2020. Over the last five years ROCE has been consistently above 20 per cent, which reflects the Group's tight control and management of inventory and monetary working capital. ROCE was 8.9 per cent on a pre-IFRS 16 basis (2019: 23.7 per cent).

Balance sheet

Net assets at 31 December 2020 were £287.8 million (2019: £295.8 million). The Group has a strong balance sheet with a range of medium-term bank facilities capable to fund investment initiatives to generate growth.

Group balance sheet	2020 £'m	2019 £'m
Non-current assets	324.4	350.0
Current assets	290.0	212.5
Current liabilities	(157.2)	(162.3)
Non-current liabilities	(169.4)	(104.4)
Net assets	287.8	295.8
Net debt (pre-IFRS 16)	(26.9)	(18.7)
Net debt (reported)	(75.6)	(60.0)
Net debt:EBITDA (pre-IFRS 16)	0.6	0.2
Net debt:EBITDA (reported)	1.3	0.6
Gearing (pre-IFRS 16)	9.3%	6.3%
Gearing (reported)	26.3%	20.3%

Pension

The balance sheet value of the Group's defined benefit pension scheme was a surplus of £2.7 million (2019: £15.7 million). The amount has been determined by the scheme actuary. The fair value of the scheme assets at 31 December 2020 was £402.7 million (2019: £368.8 million) and the present value of the scheme liabilities is £400.0 million (2019: £353.1 million).

These changes have resulted in an actuarial loss, net of deferred taxation, of £10.6 million (2019: £2.4 million actuarial gain) and this has been recorded in the Consolidated Statement of Comprehensive Income. The last formal actuarial valuation of the DB pension scheme was undertaken on 5 April 2018 and resulted in a surplus of approximately £20 million which was a funding level of 106 per cent. The scheme has continued to be in surplus, albeit reduced from pre-COVID-19 levels. The scheme continues to require no Company contributions. The scheme's LDI asset portfolio continues to hedge protection against volatility in interest rates and inflation. The increase in scheme liabilities is primarily due to the reduction in corporate bond yields.



5 year Strategy – Read more on page 7

Growth in the emerging businesses

We make selective acquisitions to complement our business and help us advance into new and untapped areas. Our acquisitions support the overall Group strategy.

Our objective is to grow our emerging businesses to help us expand into key growth areas. We aim to remove barriers and lay solid foundations for growth.

The emerging businesses are working on a full range of improvement projects, including a rebrand of the different business areas to bring them into the Marshalls Group brand family. We look to support our customers by focusing on their solution requirements.

Capital allocation

The impact of COVID-19 during 2020 has illustrated the importance and robustness of the Group's capital allocation policy. The Group's capital allocation strategy is to maintain a strong balance sheet and flexible capital structure. The key elements of the strategy are:

- to prioritise organic capital investment, supported by an increase in new product development and research and development expenditure;
- to continue to target selective strategic acquisition opportunities in New Build Housing, Water Management and Minerals. Bolt-on acquisitions of up to £50 million are considered to be the current strategy;
- to recommence the payment of dividends;
- to continue the policy of paying dividends on the basis of a dividend cover of 2 times earnings in 2021 and beyond. This will see dividends grow, in absolute terms, over the medium term; and
- to maintain a target net debt:EBITDA ratio (on a reported, post-IFRS 16 basis) of between 0.5 and 1.5 times over the cycle. On a pre-IFRS 16 basis, this translates into a target of between 0 and 1 times.

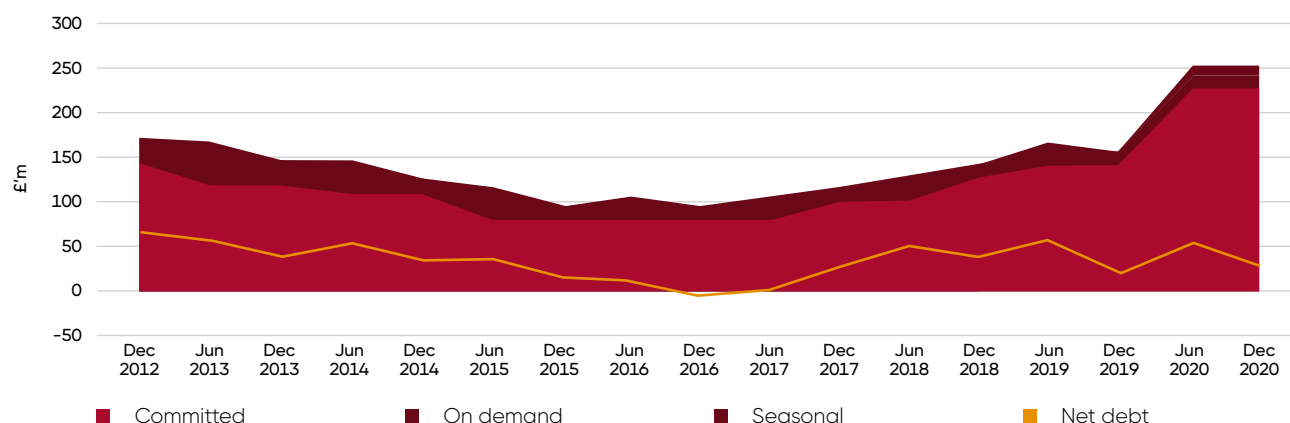
Continued development of the Group's growth strategy

Organic investment remains the priority for capital allocation and the Group has a pipeline of significant capital expenditure projects with good paybacks. Capital expenditure of £30 million is planned for 2021. This represents an increase compared with the last five years and includes projects to deliver new, innovative products and to drive through sustainable cost reductions and improvements in operational efficiency. It also includes some significant projects, for example, the commencement of a flagship dual block plant at our St Ives manufacturing site. This is a significant capital investment, of approximately £20 million over three years, which will enhance capacity and improve efficiency.

During 2020, capital investment in property, plant and equipment (including software) totalled £14.7 million (2019: £22.9 million). This compares with pre-IFRS 16 depreciation of £18.4 million (2019: £17.3 million). We have invested in the reopening of the Maltby manufacturing site, which was mothballed in 2012, which is now manufacturing the Marshalls concrete brick as well as providing additional capacity for our block paving products. Digital investment was £3 million in the year ended 31 December 2020 and has been £12 million over the last four years. Further investment continues to be made to develop our wide-ranging digital strategy, encompassing digital trading, digital marketing and digital business. Our aim is to maintain a "Digital First" strategy.

Our ESG agenda supports capital projects which improve operational efficiency and better utilisation of resources and raw materials. We are committed to reducing the environmental impact of our products, reducing packaging and the recycling of water at our sites. Our new Conservation X product range is a versatile paving option with a contemporary granite look finish and contains up to 65 per cent of recycled material.

In addition to capital expenditure, investment in new product development remains an important element in the Group's organic growth agenda. Research and development revenue expenditure of approximately £13.5 million has been invested in the three years to December 2020 and a further £5 million is planned for 2021. 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. New products are driven by sustainability, performance, aesthetics, operational efficiency and improvements in installation. Our Driveline Drain is a good example of a more sustainable solution compared to metal or plastic drainage alternatives. Revenue from new products in 2020 in the core Landscape Products business represented 8 per cent (2019: 12 per cent) of total sales.

Banking facility headroom



Priorities for capital

Organic growth >

Capital investment remains core to strategic growth
Plan £30m in 2021



R&D and NPD >

Continued focus on R&D and NPD
New product ranges
Digital strategy progressing well; e-trading platform now established



Ordinary dividends >

Furlough and deferred VAT monies repaid
Dividend reinstated
Maintaining dividend cover of 2 times earnings over the business cycle



Selective acquisitions >

Good pipeline of potential acquisitions
Target selective bolt-on acquisition opportunities in New Build Housing, Water Management, Landscape Protection and Minerals



Supplementary dividends

Supplementary dividends when appropriate. Discretionary and non-recurring



Capital structure

Marshall's continues to recognise the three guiding principles of security, flexibility and efficiency in the determination of its capital structure. The Group's optimal capital structure supports the Group's current strategic objectives, but also reflects the economic background and the cyclical nature of the construction sector. Given the impact of the COVID-19 pandemic there is now increased economic uncertainty in addition to continuing uncertainty with ongoing fragility of UK and world markets. Against this backdrop a conservative financial profile continues to be appropriate for Marshall's.

Borrowing facilities

On 1 May 2020, the Group signed agreements with each of NatWest, Lloyds and HSBC for an additional £30 million, 12-month committed revolving credit facility with each, with a 12-month extension option. These additional facilities comprised £90 million and significantly strengthened the Group's headroom. These debt facilities will be reviewed during 2021 and the expectation is that these additional facilities will be allowed to lapse upon maturity in May 2021. In addition, we established a facility line with the COVID-19 Corporate Financing Facility ("CCFF") with an issuer limit of £200 million.

The continuing strategy is to ensure that headroom remains at comfortable levels and that we have a range of competitively priced funding lines in place (with different banks) at all times and with different maturity dates. The Group's committed bank facilities have a spread of medium-term maturities that now extends to 2024.

The total bank borrowing facilities at 31 December 2020 amounted to £255 million (2019: £155 million), of which £124.7 million (2019: £83.7 million) remained unutilised. Interest cover and net debt to EBITDA covenants in the facilities were comfortably met at the year end. The bank facilities are unsecured save for inter-company guarantees between the Group and its subsidiary undertakings in favour of the facility banks.

Expiry date	Facility £'m	Cumulative facility £'m
Committed facilities		
Q3 2024	35	35
Q1 2024	25	60
Q3 2023	20	80
Q2 2023	20	100
Q4 2022	20	120
Q3 2021	20	140
Q2 2021	90	230
On-demand facilities		
Available all year	15	245
Seasonal (February to August inclusive)	10	255

Conclusion

The financial outturn in 2020 was impacted by COVID-19. However, the key pillars and priorities of our 5 year Strategy remain unchanged. Trading continues to improve and order books remain strong. The Group has a strong balance sheet and a conservative capital structure, supported by significant facility headroom. We will continue to monitor any risk to demand due to further COVID-19 developments, and remain well placed to introduce any necessary measures to mitigate any adverse impact.

Jack Clarke
Group Finance Director



Creating better futures for everyone



Dear stakeholder

There is no doubt that 2020 has been a most challenging year, but being a responsible business is what Marshalls is about. Throughout the pandemic, we continued to operate safely and in line with our commitment to creating better futures for everyone. It is this commitment that drives our ESG strategy. At its core is sustainability, which is embedded into our business model and aligned with the Group's 5 year Strategy.

We are guided by The Marshalls Way – "doing the right things, for the right reasons, in the right way" – and it is clear to us that in order to create better spaces and better futures, we have to put people, communities and the environment first. In terms of sustainability and resilience, we have a compelling story to tell. Marshalls has a 130-year history of strong principles, based on contributing to the world around us. These principles remain today and sustainability is part of the fabric of the business.

In 2021, our focus is firmly on delivering our 5 year Strategy and demonstrating how our approach to sustainability sets us apart by showcasing our credentials to our stakeholders. We are committed to making our environmental, social and governance data and policies accessible, so that our customers can trust the Marshalls brand, our investors can quantify our sustainability progress and our people can be proud of where they work.

Environment

With COP26 taking place in the UK later this year, climate change is rightly at the centre of the environmental agenda. We take our environmental impact seriously and since 2008, we have reduced our carbon footprint by 50 per cent. We have also had our carbon emissions targets approved by the Science Based Targets initiative. This is a huge achievement, especially as we were the first in our industry to do so. Our targets are ambitious but we are working on a range of environmental initiatives which promote climate action and responsibility throughout our operations. You can read about some of our highlights in this section of the Annual Report.

Social

At Marshalls, we respect and value the dignity, wellbeing and rights of employees, their families and the wider community, as well as their safety. This year has demonstrated all too clearly the ongoing commitment of our people to the business and in continuing to operate safely for our customers. You can find more information on our commitment to respecting people in our DERI strategy promoting diversity, equality, respect and inclusion (on page 49).

Governance

Marshalls' governance framework underpins all the Group's operations. The Corporate Governance Statement on pages 54 to 63 provides further details of the Group's governance framework and its importance for our ongoing relationship with all stakeholders. Good governance requires effective leadership, a healthy corporate culture and robust systems and processes. Our internal system of practices, controls and procedures enables us to operate to the highest standards of ethical and responsible business. These principles are embedded in the governance procedures that underpin our ESG and sustainability operations.

Vanda Murray OBE

Chair
11 March 2021



year Strategy – Read more on page 7

Sustainable materials supply

Understanding the risks and opportunities related to climate change.

We know the potential impacts of our operations, products and services and by addressing the risks related to climate change, we can better protect the environment and our supply of materials. The next step in our assessment of climate change risks and opportunities is environmental profiling. Our climate risk reporting will identify our environmental score by site and by region, better enabling us to mitigate climate change related risks in the UK and overseas. It will also enable us to assess the opportunities available to us to improve our processes and product offering.





Delivering sustainable growth

Marshalls' sustainability strategy is to create better futures for everyone – socially, environmentally and economically

We are guided by the United Nations Global Compact and its universally accepted ten principles which focus on the four key areas of human rights, labour, the environment and anti-corruption.

Practically, our strategy work addresses the challenges and opportunities of the Sustainable Development Goals – specifically Decent Work and Economic Growth, Sustainable Cities and Communities, Responsible Consumption and Production, and Climate Action.

All of our work is underpinned by strong risk-based analysis and opportunity identification, based on international standards and is always externally validated.



Strategic report

Doing things The Marshalls Way

Non-financial information statement

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

Reporting requirements	Relevant policies	Section within Annual Report
Environmental matters	Environmental Policy Statement* Climate Change Policy* Timber and Paper Policy Transport Policy	Sustainability strategy (pages 42 and 43) Sustainability commitments relating to the environment (page 40)
Social	Code of Conduct Policy* Social Community Investment Policy Corporate Responsibility Policy* Tax Policy* Human Rights Policy* Modern Slavery and Anti-Human Trafficking Policy Children's Rights Policy	Responsible business (page 38) Charitable donations (page 48) Health and safety (page 51) Stakeholder engagement (pages 18 and 19)
Governance	Anti-Bribery Code Policy* Tax Policy* Trading Policy* Schedule of matters reserved for the Board* Board Committee terms of reference*	Governance and compliance (pages 54 to 63) Corporate Governance Statement (pages 54 to 63) Corporate Governance Statement (pages 54 to 63) Corporate Governance Statement (pages 54 to 63)
Employees	Health and Safety Policy Serious Concerns Policy Diversity and Inclusion Policy Drug and Alcohol Policy Mental Health and Wellbeing Policy	Headcount (page 51) People engagement (pages 48 to 50) Board diversity (pages 52 and 53) Gender diversity (page 87) Stakeholder engagement (pages 18 and 19)
Principal risks		Description of risk process (page 24 to 25) Risk framework (page 25) Principal risks and uncertainties (pages 26 to 31)
Business model		Our business model (page 16 and 17)
Non-financial KPIs		Key performance indicators (pages 22 and 23) Strategy (pages 20 and 21)

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

* Key policies referred to in this Annual Report.



What ESG Means to Marshalls continued

Sustainability – materiality matrix

Why do we use a materiality matrix?

We use a materiality matrix to identify the issues that matter most to our stakeholders and that link to our strategic objectives. It is based on our risk heatmap (on page 25), the SASB Standards for Construction, the UN Sustainable Development Goals and stakeholder engagement. It focuses on the areas that impact on our business as well as the issues that are key to our stakeholders.

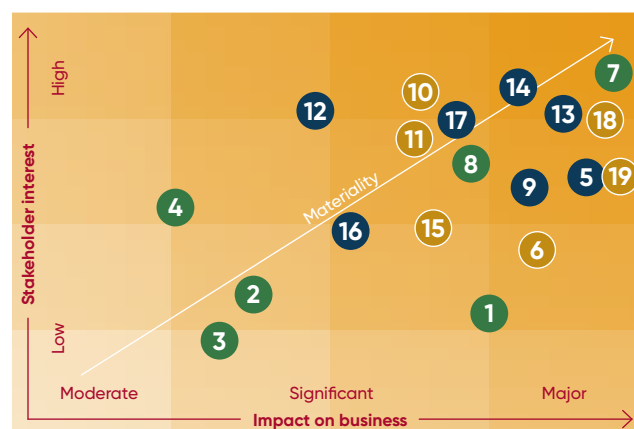
Stakeholder engagement

The matrix is based on our stakeholder engagement focus and the issues that matter most to them. As part of our materiality assessment, we have undertaken a series of workshops and training sessions with our teams to discuss what matters most to our customers, as well as regular communications and engagement with our suppliers and partners. In 2021, we will continue this process by carrying out a comprehensive review involving a number of internal and external stakeholders, including customers, staff, suppliers and partners.

Read more about Our Section 172(1) Statement on [page 18](#)

Outcomes

The matrix has identified a number of key material issues, broadly falling in three categories: environment, people and responsible business. These issues are material to our business and feed into the development of our strategy. Though they are individual and relate to different aspects of our operations, they do not stand alone – they are interconnected and interlinked and impact on one another.



- | | |
|----------------------------|-------------------------------|
| 1 Energy management | 11 Responsible sourcing |
| 2 Water management | 12 Community relations |
| 3 Waste management | 13 Human rights due diligence |
| 4 Biodiversity impacts | 14 Modern slavery risk |
| 5 Health and safety | 15 Anti-corruption |
| 6 Product innovation | 16 Diversity and equality |
| 7 Impact of climate change | 17 Brexit |
| 8 Carbon reduction | 18 Regulatory environment |
| 9 Employee wellbeing | 19 Circular economy |
| 10 Supply chain resilience | |

Reporting frameworks

As previously outlined, Marshalls' governance framework underpins all the Group's operations. The UN Global Compact and its ten principles is our overarching sustainability framework, though we also use a variety of other guidelines and frameworks in order to report on our sustainability performance. This promotes a transparent approach along with compliance, measurability and adoption of widely used standards.

Importance of governance

Reporting body	Why?	Objectives
Corporate Governance Code	Good governance is at the heart of The Marshalls Way and is key to our promotion of responsible business, acting in the interest of stakeholders.	Have a governance framework that supports the principles of integrity, strong ethical values and professionalism
United Nations Global Compact ("UNGC")	As a signatory to the UNGC since 2009, Marshalls has aligned operations and strategies with 10 universally accepted principles in the areas of human rights, labour, environment and anti-corruption and to take action in support of UN goals and issues embodied in the Sustainable Development Goals.	- Uphold the UNGC principles - Report on progress through annual Communication on Progress - Use the UNGC principles to guide sustainability strategy - Collaborate with other businesses as part of UNGC UK working groups
Task Force on Climate-related Financial Disclosures ("TCFD")	As part of the Group's climate change strategy and commitment to science-based targets, Marshalls supports the TCFD in order to be clear about our approach to climate related risks.	Report annually in line with TCFD guidelines in terms of governance, strategy, risk management, and metrics and targets
Streamlined Energy and Carbon Reporting ("SECR")	Reporting to the SECR framework is a mandatory requirement for Marshalls.	Report annually in line with SECR framework in terms of energy use, greenhouse gas emissions, emissions intensity ratio, methodology and energy efficiency action
Global Reporting Initiative ("GRI")	GRI standards encourage transparency and we use the standards as part of our reporting process.	Ensure annual sustainability reporting takes GRI standards into consideration
Sustainability Accounting Standards Board ("SASB")	SASB industry-specific standards have been used to guide our materiality analysis.	- Develop annual materiality analysis based on SASB standards and stakeholder input - Review materiality matrix on an annual basis



Sustainable Development Goals ("SDGs")

Through our engagement with the UN Global Compact, Marshalls aims to continue to make a rich contribution to the United Nations' SDGs.

In 2020, we reviewed each of the 17 SDGs and their individual targets in order to identify the areas that best fit Marshalls' strategic objectives and materiality issues. Based on the UN Global Compact's SDG Action Manager and stakeholder engagement, our review identified the following priority SDGs. It should be noted that other individual SDG targets are pertinent to Marshalls' work and stakeholders. In 2021, we will take our review to its next iteration and analyse the potential risks of our business hindering the achievement of the SDGs, in order to look at both positive and negative impacts.

Sustainable Development Goal	Related strategic objectives	How we engage
	- Digital transformation - Logistics excellence - Customer centricity - Operational excellence - Growth in the emerging businesses	- Paying a Real Living Wage based on the Living Wage Foundation - Embedding the ETI Base Code into our operations and ensuring fair working conditions - Engaging with stakeholders to uphold human rights principles - Providing professional development opportunities to our employees via our talent management strategy - Ethical Risk Index based on ETI Base Code factors for imported stone products
	- Brand preference for product specification - New product development - Sustainable materials supply	- Collaborating with industry peers on sustainable building practices - Investing in new product design for sustainability - Cement reduction and replacement R&D programme - Implementing road safety programmes for our drivers
	- Digital transformation - Logistics excellence - Sustainable materials supply - Operational excellence	- Carbon labelling of our products - Setting science-based targets for carbon emissions reduction - Investing in more sustainable ways of making our products and reducing plastic - Setting targets for reducing waste and packaging
	- Sustainable material supply - New product development - Operational excellence	- Analysing risks and opportunities relating to climate change - Carbon reduction programme based on approved well below 2°C Science Based Targets initiative targets - Reporting Scope 1 and 2 emissions with reference to TCFD recommendations - Engaging with suppliers to manage and report Scope 3 emissions

Business and human rights

During 2020, the Group introduced a range of measures to support national and global efforts to help tackle the spread of COVID-19 for business-critical suppliers. These measures included putting in place robust health and safety measures to ensure that urgent construction products could continue to be delivered to NHS sites, staying connected and continuing to pay our suppliers to ease the immediate financial impact upon them. We have also reviewed our business and human rights activities, enhanced our risk analysis, information gathering and auditing processes and have brought forward programmes that were already in the pipeline.

Marshalls has continued to collaborate with sector peers, UN agencies, overseas governments and the UK Government throughout the year. Collaboration is a key part of our broader human rights RESPECT strategy, covering remediation, engagement, supply chain, processes, environment, collaboration and technology. The RESPECT strategy will be launched during the first half of 2021, and reflects the trajectory of global human rights legislation, and also incoming mandatory human rights due diligence.

Traffik Analysis Hub

- Marshalls is the first in the construction sector, and one of the first globally, to be a private sector participant in Traffik Analysis Hub.
- Traffik Analysis Hub is a true collaboration across multiple sectors – law enforcement, third sector, finance, private sector, governments – to prevent human trafficking and the harm that it does.

Everyone's Business app

- Marshalls has accelerated the introduction of an innovative tech solution – Everyone's Business – to enable all employees to flag quickly any concerns regarding modern slavery, health and safety, ethical sourcing and the environment.

Safecall

- The Group is extending the use of the whistleblowing hotline, Safecall, to supplier operations in India, China, Vietnam, Brazil and Portugal.
- This will enable workers and other local stakeholders to report issues relating to the working environment and operations in a safe and secure way via phone and web.



Environmental and Social

Sustainability Pillars

The Group's sustainability pillars are aligned with the UN Global Compact principles. They sit alongside the Group's strategic objectives set out on pages 20 and 21 and ensure that the Group's priorities and actions take full account of the longer-term sustainability priorities.

Sustainability pillars		Priorities	Stakeholder engagement
ENVIRONMENT	Environment		
	Climate change and carbon reduction 	• Science-based targets • Energy reduction at all sites • Climate and environmental risk profiling	• Working with the Carbon Trust to update carbon labelling for all products • Carbon reduction meetings with key suppliers • Sustainability training for staff
	Pollution and resources 	• Renewable energy projects • Fleet replacement • Plastic reduction • Investigating new fuels and transport methods	• Investigating solar energy projects with local UK councils • Independent compliance auditing • Active membership on Mineral Products Association ("MPA") committees
	Water use 	• Flood alleviation • Water risk profiling • Water harvesting and recycling	• Collaborating with SusDrain, Construction Industry Research & Information Association ("CIRIA's") SuDS working group • Working with research partners on infiltration testing for permeable paving
SOCIAL	Labour		
	Labour, supply chain, responsible sourcing and community relations 	• Children's rights • Elimination of child labour • Responsible sourcing processes • Community relations processes	• Chairing the Private Sector Strategic Advisory Panel, part of the PACE Consortium, working on the worst forms of child labour • Engagement with internal stakeholders on formalising community relations processes
	Human rights		
	Human rights and modern slavery 	• Assessing impact of COVID-19 on human rights • Human rights RESPECT programme • Risk mapping	• Engagement with UNGC UK Modern Slavery Working Group • Cross-sectoral collaboration in India and multi-stakeholder programme in Vietnam
	Anti-corruption		
	Anti-bribery 	• Code of Conduct training for all staff • Promotion of Safecall whistleblowing hotline	• Engagement with staff and suppliers to uphold Marshalls' Code of Conduct and Anti-Bribery Code
	Responsible business		
	Responsible business 	• Contribution to the SDGs • Fair Tax Mark accreditation • Materiality assessment • Upholding responsible business practices	• Providing information on ESG performance to external stakeholders • Charity partnership with Macmillan • Product donation to Manchester Nightingale Hospital • Members of Made in Britain
	People 	• Internal communications • Employee wellbeing • Gender equality • Paying a Living Wage	• Use of social media to stay connected during pandemic • Actively asking for feedback via Your Voice employee survey • Engagement with the Social Mobility Pledge
	Health and safety 	• Health and safety of staff and customers during pandemic • Reduction of major incidents and days lost • Mental health first aider process	• Engaging with staff on behavioural safety programme • Working with mental health first aiders to support our staff



Achievements	Targets	Governance
• Approved science-based targets • Re-baselining of relative targets • Reduction of total CO₂e (including transport) by 50% since 2008	• Reduce carbon intensity by 40% by 2030 (from a 2018 base year) • Setting an internal carbon price • Development of Environmental Product Declarations	• Task Force on Climate-related Financial Disclosures ("TCFD") • Streamlined Energy and Carbon Reporting ("SECR") • BSI verification of data
• 8,000 tonnes of CO₂e saved from green electricity • Assessment of all sites for solar energy suitability • Initiatives reducing plastic consumption by over 30% since 2017 • ISO 14001 and ISO 50001:2018 maintained	• 3% reduction year on year of kWh/tonne of concrete • ISO 50001:2018 auditor training • Focus on biodiversity • Euro 6 standard for fleet	• Streamlined Energy and Carbon Reporting ("SECR") • Logistics UK • Mineral planning legislation • ISO 14001/ISO 50001:2018
• New KPIs set • Permeable paving and sustainable drainage systems ("SuDS") to alleviate flooding	• Continued monitoring of water harvesting and recycling at sites • Continued development of new products and technologies	• Environment Agency • Permits and consents • Water stress areas • ISO 14001
• BES 6001 Responsible Sourcing of Construction Products • BES 6002 Ethical Labour Sourcing • Maintaining order levels and supplier payments during pandemic	• Development of community relations programme • Re-accreditation of BES 6001 and BES 6002 • Impact review of children's rights programme	• ETI Base Code • Children's Rights and Business Principles • BES 6001 • BES 6002
• Modern slavery awareness staff training • Crimestoppers campaign • Power of Logistics programme	• Launch Everyone's Business app • Launch Safecall whistleblowing hotline to overseas supplier operations • Engagement with Traffik Analysis Hub to prevent human trafficking	• UN Guiding Principles on Business and Human Rights • Human Rights Due Diligence Framework • BES 6002 • Modern Slavery Act 2015
• Marshalls Code of Conduct launch • Plans for international launch of Safecall whistleblowing hotline	• Marshalls Code of Conduct training for 100% of staff • Review anti-bribery training processes	• UK Bribery Act 2010 • Marshalls' Anti Bribery Code and Serious Concerns Policy
• Payback of £94m furlough money and deferred VAT • Set-up of ESG Committee • £183,000 donated to Macmillan • Fair Tax Mark accreditation	• Provide information on SDG alignment • Fair Tax Mark re-accreditation • Implementation of ISO 20400 Sustainable Procurement	• Corporate Governance Code • UN Sustainable Development Goals • Fair Tax Mark
• Effective internal communications programme • 99 apprenticeships • Living Wage employer • Employee Voice Group	• Implement DERI strategy, focusing on diversity, equality, respect and inclusion • Introduce four employee networks: gender equality, multi-cultural, identity and ability • Living Wage re-accreditation	• Employment and equality legislation • UNGC Target Gender Equality group • Social Mobility Pledge • Living Wage Foundation
• Donation of PPE and managing health and safety processes throughout COVID-19 • 20% increase in health and safety training hours per employee • 34.5% reduction in lost time incidents • ISO 45001 maintained	• Reduction of major incidents by 10% • Reduction in days lost of 10% • Increase number of mental health first aiders • Introduction of SHEQ digital management system	• Health and safety legislation • ISO 45001 • RIDDOR

GOVERNANCE



Climate change

Climate change presents a risk for Marshalls (as highlighted in our risk heatmap on page 25), as well as a number of opportunities. Our challenge is in mitigating these risks whilst finding ways to embrace the opportunities for us as a business, but also for our customers and other stakeholders.

Risks

- Changing public perceptions of the longer-term implications of climate change
- Unpredictable and extreme weather events
- Physical site-based climate change impact

Opportunities

- Product carbon footprints
- Water management products including permeable paving and sustainable drainage systems
- Using weather trend data to mitigate impact

Carbon reduction

Decarbonisation is a commitment that Marshalls takes seriously. By aligning greenhouse gas emission reduction targets, across all relevant scopes, with well below 2°C emissions scenarios, Marshalls is clear that positive action towards a net-zero future by 2050 makes business sense.

2020 highlights

In 2020, Marshalls had its emissions reduction targets approved by the Science Based Targets Initiative as consistent with levels required to meet the goals of the Paris Agreement. Throughout the global pandemic, Marshalls has forged ahead with its commitment to carbon reduction with a variety of projects including reducing plastic packaging, trialling new modes of transport to move product, assessing site solar energy capabilities and new product development to reduce cement content.

Priorities

Marshalls' Energy and Climate Change Policy confirms the Group's commitment to reducing the energy and carbon impact of its business. Since 2008, we have reduced the total CO₂e of the business (including transport) by 50 per cent. Further to work undertaken in 2020 to re-baseline our targets (from a 2018 baseline), our new targets are to reduce absolute emissions 15 per cent by 2025 and 27 per cent by 2030. For relative (intensity) emissions, the targets are 23 per cent by 2025 and 40 per cent by 2030 – in line with science-based targets.

Policies and governance

Marshalls has a mandatory duty to report its annual greenhouse gas ("GHG") emissions under the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013. The Group uses The Greenhouse Gas Protocol: A Corporate Accounting and Reporting Standard (revised edition) and the June 2018 Department for Business, Energy and Industrial Strategy ("BEIS") published CO₂e conversion factors to measure its GHG emissions. Marshalls has achieved the Carbon Trust Standard and will seek re-certification in 2021. The Group's approach to the Energy Savings Opportunity Scheme ("ESOS") legislation was to define its energy management in compliance with the international standard for energy management, ISO 50001, gaining re-accreditation in 2020. The Group continues to voluntarily disclose data to the Carbon Disclosure Project ("CDP"), receiving a B rating for its latest submission for 2019 data.

Our commitment

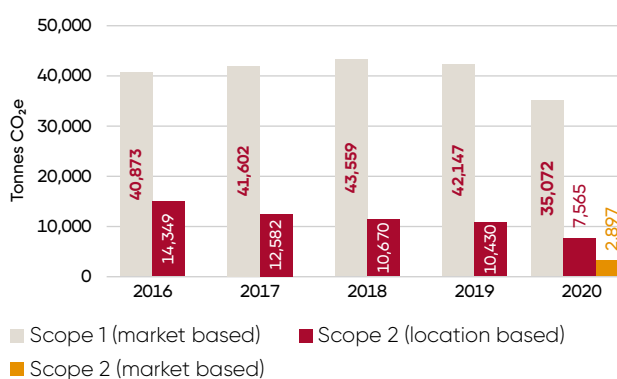
"We commit to reduce Scope 1 and 2 greenhouse gas emissions 40 per cent per tonne of production by 2030 from a 2018 base year. We also commit that 73 per cent of suppliers by emissions, covering purchased goods and services and upstream transport and distribution, will have science-based targets by 2024."

For Marshalls, Scope 1 refers to our fuel usage, including diesel, petrol, gas oil, liquified petroleum gas ("LPG"), kerosene and natural gas. Scope 2 refers to our electricity usage.

In 2020, Marshalls switched to green electricity so we are reporting our Scope 2 emissions in two different ways – location based and market based. Location-based measurement uses Government emissions factors, which is the way we have reported in the past. This year, however, we are taking into consideration our market-based measurement, which uses supplier emissions factors.

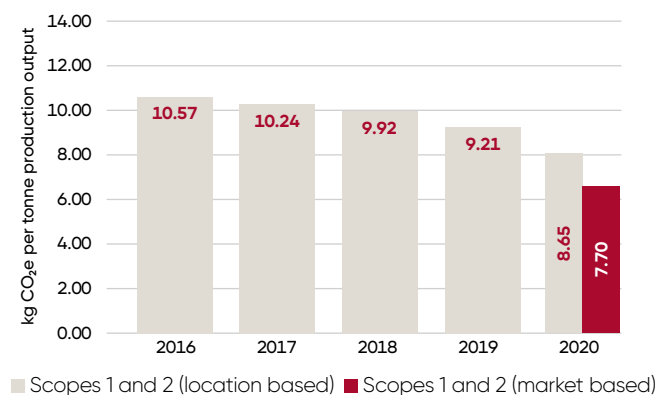
Absolute Scope 1 and 2 emissions (tonnes CO₂e)

This chart illustrates the Group's UK absolute CO₂e emissions in tonnes, including transport activities, and energy use in kilowatt hours, between 2016 and 2020.



Relative Scope 1 and 2 emissions (kg CO₂e per tonne of production)

This chart illustrates the Group's CO₂e intensity emissions as a proportion of production output, including transport activities between 2016 and 2020.



Note: Intensity ratio for 2020 is 8.63kg CO₂e per tonne (location based) and 7.70kg CO₂e per tonne (market based).

We use an intensity ratio in order to define emissions data in relation to our business – for Marshalls, this is tonnes of CO₂e per tonne of product. This allows us to benchmark ourselves, give context to stakeholders and allows for business growth.



Task Force on Climate-related Financial Disclosures ("TCFD")

Marshall's has publicly committed to being a supporter of the TCFD and has this year decided to report with reference to TCFD recommendations, ahead of it becoming mandatory.

Disclosure	
Governance	- Marshall's CEO has overall responsibility for climate-related issues (including risks and opportunities) and Marshall's Group FD has responsibility to the Board for reporting on climate related issues. - Climate change is discussed at the annual Board strategy review and both the Energy and Climate Change Policy and the Environmental Policy are signed off by the Board annually. Twice a year, the Board reviews the Group Risk Register (a significant part of which is related to climate change). - The Group Sustainability Director reports to the Board on progress against targets and provides strategic input on the management of climate related risks and opportunities. He chairs the ESG Committee, which was approved by the Board and is made up of 17 members of senior staff from different parts of the business. The Committee meets quarterly to review ESG targets, update on performance to enable better reporting and discuss cross-departmental ideas and initiatives. - The Health, Safety and Environmental Director reports to the Board and has Group responsibility for delivering the environmental strategy, and managing the Energy team which delivers operational improvements, legal compliance and stakeholder reporting.
Strategy	- For carbon and energy data, an independent audit is carried out by BSI. - In the short term (0–1 year), Marshall's has to meet its own carbon reduction performance targets and respond to climate change related regulation and legislation. The potential impact of an unexpected reputational event could lead to disruption in production. The Group employs compliance procedures and independent auditing processes comprising of ISO 50001:2018 for energy management from BSI and the Carbon Trust Standard for carbon management from the Carbon Trust. - In the short term (0–1 year), Marshall's has to meet its own carbon reduction performance targets and respond to climate change related regulation and legislation. The potential impact of an unexpected reputational event could lead to disruption in production. The Group employs compliance procedures and independent auditing processes. Independent auditing processes comprising of ISO 50001:2018 for energy management from BSI and the Carbon Trust Standard for carbon management from the Carbon Trust. - In the short to medium term (1–5 years), changing public perceptions of the impact of climate change are driving customers to become more interested in Marshall's sustainability credentials. This offers an opportunity to showcase our work and our commitment to sustainability, including the full carbon labelling of all products. - Unpredictable and extreme weather patterns are a risk in the short, medium and long term (5–30 years). Prolonged rainfall patterns disrupt the demand and installation of landscape products. We mitigate this challenge by closely monitoring weather data and linking weather patterns to impact on sales. Our centralised specialist functions support mitigation plans and the management of relationships on commercial contracts. We focus on resilience strategies for climate change, as well as the development of our Water Management business (including permeable paving and sustainable drainage solutions). - Part of the work involved in setting science-based targets was to look at a suitable baseline year, suitable sector plan, 2°C, beyond 2°C and 1.5°C scenarios to provide a pathway for Scope 1 and 2 emissions as potential options, and investigating Scope 3 options.
Risk	- In order to define substantive impacts on the business, Marshall's has a formal ongoing process to identify, assess and analyse risks and those of a potentially significant nature are included in the Group Risk Register. All risks are aligned with the Group's strategic objectives and each risk is analysed for impact and likelihood to determine exposure and impact to the business. The register also looks at the financial impact of reputational risk. - The Board determines the Group's approach to risk, its policies and the procedures that are put in place to mitigate exposure to risk. - All capital spend is assessed both economically and environmentally. Each project is evaluated through an internal Capital Environmental Assessment process which assesses the risk of climate change in terms of flood plan management and water stress, implementing flood protection or water harvesting/reduction measures where appropriate. Assessments are also made in terms of energy intensity and carbon intensity of projects. - Working with Verisk Maplecroft, Marshall's has started to analyse climate risk using data to calculate environmental risk score by environmental profile grouping by site and region. The score takes into account a range of climate related issues including water stress, heat stress and sea level rise. A climate risk report will be published in 2021.
Metrics and targets	- Metrics used to assess climate related risks and opportunities include climate data, climate risk and environmental profiling data, energy use and carbon emissions. These are in line with our strategy and risk management process. - See page 44 for Scope 1 and Scope 2 greenhouse gas ("GHG") emissions. - See pages 42 and 43 for targets used by Marshall's to manage climate related risks and opportunities and performance against targets.

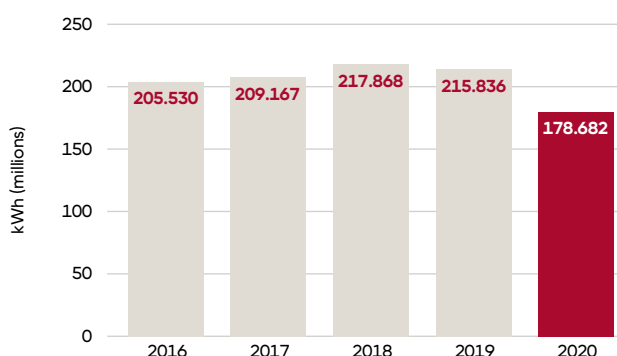


Streamlined Energy and Carbon Reporting ("SECR")

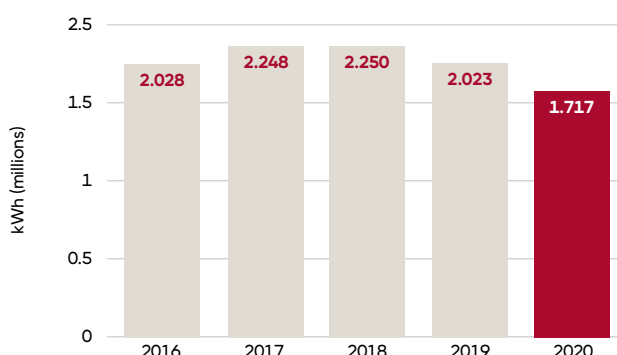
Marshalls continues to report its global Scope 1 and 2 GHG emissions in tonnes of carbon dioxide equivalent. With the introduction of the SECR framework, Marshalls is also reporting underlying global energy use as well as the split between UK and offshore energy use in other countries.

The two charts below show underlying global and UK energy use.

UK energy performance in kWh

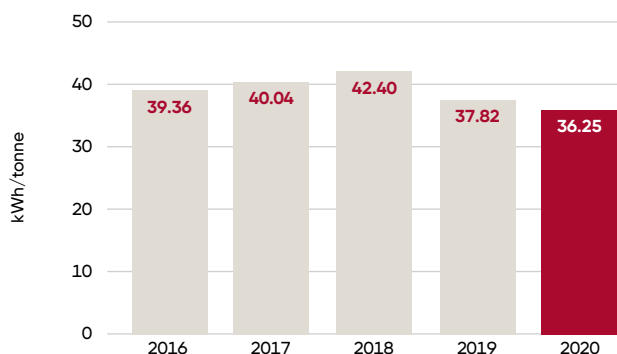


Belgium energy performance in kWh



Relative energy performance in the UK in kWh per tonne of product

This chart shows Marshalls' energy use in the UK in relation to product. The intensity ratio for 2020 is 36.8kwh per tonne of product and this is calculated by dividing our kWh (energy) usage by our production output (tonnes).



5 year Strategy – Read more on page 7

New product development – Maltby concrete Brick

At the beginning of 2021, Marshalls Bricks and Masonry reopened the previously mothballed Maltby site and commissioned a new manufacturing plant to provide additional capacity for 50 million concrete bricks annually. The new Maltby concrete brick comprises multiple ranges and has been specifically designed to maximise the CO₂ savings and to meet the needs of bricklayers in terms of ease of use and speed of build.

The formed perforations reduce the weight and the material used to manufacture each brick which provides significant installation benefits by providing a safer, quicker and easier build.

Substantial energy and emissions savings are made over the traditional process still employed to "fire" clay bricks, contributing to a carbon reduction of 49 per cent over the lifetime of the brick or house.

Marshalls Bricks and Masonry concrete perforated brick

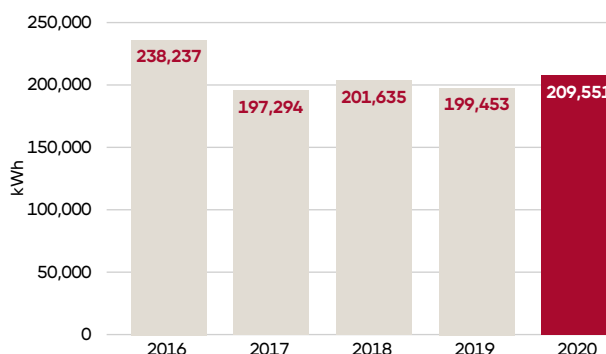
- Innovative masonry product – unique manufacturing technique and mix design
- Minimal energy input compared to traditional clay brick – far smaller environmental footprint
- Produced by compacting a semi-dry concrete mix
- 100 per cent recyclable concrete mix
- Tighter production tolerances, very consistent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

49%

Lifetime carbon reduction compared with the clay alternative

Self-generated energy from renewables in kWh

This chart shows self-generated energy from the solar array at our Sandy manufacturing site.





In 2020, Marshalls engaged in a variety of measures to improve the business' energy efficiency. The table below shows the actions taken by different parts of the business to increase energy efficiency, reduce carbon and meet our emissions reduction targets.

Project	Actions	Outcomes
Green electricity	Purchasing of green electricity supply.	Carbon reduction of 8,000 tonnes from green electricity.
Reduced plastic packaging	Reduced plastic consumption by over a third since 2018 and significantly reduced thickness on all remaining plastic packaging.	Reducing energy consumption without affecting pack integrity or branding.
Renewable energy	Assessment of all major sites for solar energy capabilities.	Commitment to have one major solar energy project per year.
Building management systems	Installation/upgrade of heating management systems at several sites.	Carbon savings of over 1,272 tonnes of carbon.
Cement reduction	Ongoing investigation and product development involving reduced cement content.	Several projects that are being trialled and tested with suppliers.
Natural gas	Change of carbon fuel for all heating applications (production, curing, comfort heating and hot water).	Greenhouse gas emission reduction of 403 tonnes of carbon per year.
Carbon labelling	Working with the Carbon Trust to update our carbon labelling information for Marshalls products.	Verification of product carbon footprints.
Fleet emissions	Ongoing upgrading of vehicles in our fleet to comply with Euro 6 standards.	Limit exhaust of harmful pollutants and improve fuel economy.

Ratings agency

Marshalls engages with a variety of different ESG ratings agencies and projects. Here we report on our performance and progress in order to promote transparency in ESG disclosure for our stakeholders.

Index/rating	Description	Performance	Progress
Carbon Disclosure Project ("CDP")	A global disclosure system that enables companies to manage their environmental impacts.	B (Management Level which demonstrates taking coordinated action on climate issues)	↑
FTSE4Good	Designed to measure the performance of companies demonstrating strong ESG practices.	FTSE4GOOD constituent	→
ISS	Provides investors with the insight to effectively incorporate sustainability in their investment decision.	C	↑
MSCI	Designed to measure a company's resilience to long-term, industry material ESG risks.	AAA	→
Sustainalytics	Based on a framework that measures a company's exposure to industry-specific material ESG risks and how well a company is managing those risks.	23.4 ESG risk rating	→



year Strategy – Read more on page 7

New product focus – Sustainable Drainage Systems ("SuDS")

Climate change and extreme weather events have an impact on flooding and, though excessive rain is a risk to the business, developing products that tackle flooding also offers an opportunity.

SuDS mitigate many of the adverse impacts of storm water run-off on the environment in terms of both volume and pollutants. Marshalls' range of permeable paving provides real benefits to our environment in terms of both performance and aesthetics.

Our approach enables us to create drainage systems that provide natural water quality treatment, encourage infiltration, reduce the impact of peak flows and minimise impact on local habitats of both communities and wildlife.

Driveline Drain® is a unique one-piece concrete drainage system that provides a more attractive and sustainable solution compared to metal or plastic drainage alternatives.



"Engaging with the people at Marshalls continues to be an important focus for the Board and a key part of the people strategy, highlighted further by the challenges of COVID-19. I'm proud to see how the Employee Voice Group has evolved into an elected representative body, as chosen by Marshalls' employees. We value the incredible role the elected EVG is playing in helping us to shape key initiatives to improve employee experience. We've made real progress, and while there is still more to do to enhance our position, we are confident in our plans. We're excited by the people journey we are on."

Janet Ashdown

Non-Executive Board sponsor for employee engagement

Employee experience

Wellbeing & Me

A three-year focused employee wellbeing strategy has been created using employee feedback. Our mission is to enable employees to be their best at work by creating a wellbeing culture. Our "Wellbeing & Me" offering includes four key focus areas: physical, mental, financial and social.

Your Voice

In 2020, we launched a new employee engagement listening strategy, partnering with Peakon. Throughout the year, we have actively asked employees for feedback on life at Marshalls, their wellbeing and how we handled COVID-19.

We have maintained an employee net promoter score of 7.6, which is 0.2 above our industry benchmark. We look forward to building on this in 2021.



Talent and recruitment

Annual talent reviews enable Marshalls to identify high potential people and succession plans to build talent pools for the future. Marshalls' in-house Talent team attracts, sources and engages talent directly from the market to promote our employer brand and ensure quality of hire. Over 30 per cent of our hiring is as a result of internal moves and promotion.

Living Wage employer

We have maintained our Living Wage accreditation in 2020. We recognise the value that this brings to creating better futures for our people.

2,500
employees

Fair Tax Mark

As a sustainable and responsible business, Marshalls pays its fair share of tax. The Fair Tax Mark is given to businesses which display a transparency in their tax affairs and which are proud to state the fact they are good tax payers.

7
years running



Charitable and community donation

We continue to support our charity partner, Macmillan, and have extended this partnership for a further year in recognition of the impact that COVID-19 has had on its fundraising.

£183k
donated





Bringing The Marshalls Way to life

The Marshalls Way

The Marshalls Way is how we do business morally, ethically and legally. To bring this to life for our people, we have worked with the business to co-create a behavioural framework on what it means to act and work in The Marshalls Way.

To support this we have started a programme of four strategically focused upskilling sessions across the whole business – The Marshalls Way Team Talks. These sessions are led by people managers, and are aimed at opening meaningful dialogue on The Marshalls Way and our 5 year Strategy.



Apprenticeships

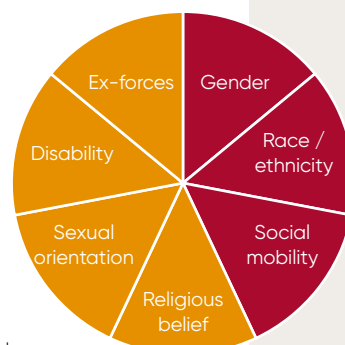
We have launched our new targeted apprenticeships strategy following a thorough needs analysis considering present and future strategy-driven skills needs. Focus areas include management and leadership, business administration, information technology, digital marketing and engineering. Among our 99 active apprentices we have employees at the start of their careers at entry level, but also experienced employees expanding their skills and knowledge up to degree level qualifications. 12 employees have achieved qualifications as part of an apprenticeship scheme in 2020.

Diversity, Equality, Respect and Inclusion ("DERI")

We have built the Marshalls DERI strategy with the ambition to further influence the culture, behaviour and awareness of our employees and leaders. The three-year change programme will start with a tactical plan to open the conversation, involve and educate our people and address what we discover.

The initial focus will be on developing gender equality and social mobility, and engaging people from ethnic backgrounds without excluding the need to recognise intersectionality.

Focus areas for DERI



Women's Empowerment Principles

In 2020, Marshalls began working with the United Nations Global Compact on our target for gender equality, taking action to advance women's leadership and representation in our business. We have an action plan in place to further our commitment to supporting and promoting the rights of women and girls by becoming Women's Empowerment Principles ("WEPs") signatories. With this public commitment we will be working towards upholding and implementing the principles across our own business and our full global supply chain.

Apprentices

In 2020, we increased our number of active apprenticeships by 98 per cent (vs 2019), bringing our total number of apprentices to 99. Our commitment to supporting professional development at Marshalls fosters talent and skills growth.

Total number of apprentices in 2020

99

+98%

Employee development

Focus on health and safety and employee wellbeing during 2020, delivering a combined 14,000+ hours of training. We utilised the expertise of our employee assistance programme partner, CiC, to deliver webinars focused on mental health and wellbeing during the pandemic, with an excellent employee uptake.

Cumulative hours, training

14,000+

Employee Voice Group

We have evolved our Employee Voice Group into an elected representative body of 19 employees. It acts as a sounding board for change and developments at Marshalls, ensuring they represent the voice of their employees while being champions of our culture change mission.

ENPS score of

7.6

(0.4 above the industry benchmark)





The Marshalls Code of Conduct

Through a collaborative working group of experts from across the Group, the Marshalls Code of Conduct was redesigned in 2019. Throughout the early part of 2020, a training programme to support the rollout of the new Marshalls Code of Conduct was co-created with the same business experts. The training programme was launched to the full business in September 2020, with the aim of all employees completing the in-depth training by March 2021. All new employees will be asked to complete this training as part of their induction programme.

To support the rollout, booklet copies of the Marshalls Code of Conduct have been delivered to all Marshalls leaders. A condensed version of the booklet, created as a pocket guide, is being delivered to all Marshalls Operations employees as part of their training.



Culture and communications

The Marshalls Story and the Marshalls history timeline have been created with support from more than 100 employees. The Marshalls Story brings our history and strategy to life, while the history timeline gives a visual representation of our 130 years in business. Both The Marshalls Story and the timeline are used as key collateral in the engagement of current and future employees into the 5 year Strategy.

Throughout 2020, we maintained a vital communications pipeline to employees, which is ongoing today. We prioritised providing regular updates, guidance and support, as well as being quick to react to new local, NHS and UK Government guidance. We recognise that our people place trust in the communications we share and have looked to us as a major source of information throughout the pandemic.

Our collaborative approach engaged employees from different functions, working together to ensure we could communicate quickly and consistently. Throughout the pandemic, we used a variety of communications channels to keep in touch, including text message alerts, letters, posters for our sites and our dedicated Facebook page.

Case study

Engagement

Mental health and wellbeing

In 2020, looking after the mental health of our people has been a priority. Mental health conversations with our dedicated mental health and wellbeing service increased by over 60 per cent this year (based on like-for-like data). During the national lockdown, our increased use of internal communications channels ensured we were able to stay connected and promote our employee assistance programme. We also introduced wellbeing focused posts on our Marshalls social media accounts, offering useful advice, webinars and support.

Development

Marshalls is keen to promote learning and development. We work with several colleges and training providers offering work experience placements and apprenticeship opportunities for people starting out on their career journey. We also offer leadership programmes to provide our leaders with the practical tools they need to lead and inspire their teams. In 2020, despite the pandemic, Marshalls invested over 50 per cent more on different apprenticeships compared to 2019.

Community support

Our ability to operate safely and efficiently enabled us to also contribute to our local communities. We delivered face shields to social care workers, along with a donation of our own PPE to Calderdale Royal Hospital ICU, 100 tonnes of screed for the Manchester Nightingale Hospital and paving to Blackpool Victoria Hospital. Outside the UK, we shared our health and hygiene messaging with our overseas supply chain, maintained order levels and continued to pay suppliers throughout the pandemic.





Health and safety

The Group Finance Director, Jack Clarke, is the Board Director responsible for the health and safety performance of the Group. The Group's Health and Safety Policy is approved by the Board and reviewed at least annually. Marshalls' five-year Health and Safety Strategy is aligned with the business strategy with set objectives, and clearly demonstrates the commitment of the business to take the safety and wellbeing of its employees to the highest level. The Board is fully committed to the continuous development and improvement of the business' safety processes and the importance of engaging and developing a competent workforce.

The achievement of annual health and safety improvement targets is directly linked to the remuneration of the Executive Directors and senior management, as explained in the Remuneration Report on pages 70 to 89.

The headline target for 2020 was to maintain days lost resulting from workplace incidents at a figure no higher than the 2015 actual result (excluding the impact of acquisitions within a period of three years from purchase).

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

Accident frequency and severity rates (per 1 million hours worked) 2015–2020 Marshalls UK

	2015	2016	2017	2018	2019	2020
All accidents	48.8	49.2	43.4	50.5	41.4	15.9
All lost time accidents	5.1	5.6	4.1	3.2	2.9	1.9
All RIDDORs	1.6	2.3	1.4	2.9	0.9	0.6
All days lost	45.8	38.0	24.6	38.1	32.8	28.8
Average UK headcount	2,237	2,253	2,307	2,302	2,348	2,417

Note: The data for Edenhall is not included for 2018–2020 as it is still within the integration period of three years from purchase.

Note: The above data covers employees and contractors.

The actual results achieved against the 2016 target were:

**Reduction in days lost
resulting from all accidents
frequency rate**

12.2%

**Reduction in incidents
reportable to the HSE under
the Reporting of Injuries,
Diseases and Dangerous
Occurrences Regulations
("RIDDOR")**

33.3%

**Reduction in lost time
incidents ("LTIs")
frequency rate**

34.5%

**Reduction in all incident
frequency rate**

61.5%

In 2020, 100 per cent of sites had ISO 45001:2018 for Occupational Health and Safety Management Systems in place (this does not include Edenhall as it is still within the integration period of three years from purchase). This internationally recognised standard provides a framework to increase safety, reduce workplace risks and enhance health and wellbeing at work.

In 2020, Marshalls demonstrated its commitment to meeting the highest standards of safety, health and wellbeing by continuing to operate safely during national lockdown restrictions. The year saw the introduction of a variety of initiatives to ensure the continued safety of employees, customers and suppliers during the pandemic:

- creation and implementation of detailed COVID-19 risk assessments and procedures across the business;
- support and advice from the SHE team during the pandemic, including monthly COVID-19 audits to ensure effectiveness of control measures; and
- using technology to reduce the need for people to travel.

Our behavioural safety programme began in 2020, with a focus on empowerment and positive reinforcement. The programme also involved the rollout of the use of the SLAM technique, encouraging our people to Stop, Look, Assess and Manage any workplace risks and hazards.

Enabling our people to become health and safety ambassadors through coaching and upskilling, we are promoting positive safety and working together to develop a culture of shared responsibility to enable safe behaviour.

Along with a primary target to achieve an accident rate lower than the previous three-year average (average of 2018, 2019 and 2020, excluding acquisitions) and continuing to navigate the impacts of the pandemic on our people, customers and suppliers, 2021 will see the following health and safety initiatives:

- introduction of SHEQ digital management system;
- continued focus on behavioural safety; and
- training of new mental health first aiders and mental health instructors.

Safety at sites during COVID-19

There is no doubt that the global pandemic brought many challenges to the Health and Safety team in 2020. Putting the safety and wellbeing of staff and customers first, Marshalls' logistics, dispatch and operational sites have continued to prepare and deliver Marshalls' products to keep the business running and orders fulfilled. Responding to Government guidelines and Marshalls' own robust health and safety protocol, additional processes were introduced including specialised COVID-19 safety training, regular risk assessments, site signage, floor markings and additional ways to sanitise. All sites underwent unannounced COVID-19 audits to ensure controls were working.



A committed, agile and experienced Board



The Board is diverse, well balanced, experienced, committed and agile. 2020 has brought all of these characteristics to the fore.

It has great depth of experience and skill covering leadership, construction, finance, M&A, product development, technology, marketing and retail.

The Board has acted decisively, and as a cohesive collective unit, throughout 2020, applying its skill and knowledge in ensuring the long-term sustainability of the Group. Clear strategic, and innovative, thinking and planning have been critical to ensuring: the health and safety of our employees; the Group's financial viability; continued engagement with our key stakeholders; and that we learn from the challenges of 2020 in implementing our strategic plan, improving operational effectiveness and driving cultural change.

Vanda Murray OBE Chair



Term of office

Appointed as Non-Executive Director and Chair in May 2018. Last re-elected in May 2020.

Length of service

2 years 8 months

Skills and experience

Fellow of the Chartered Institute of Marketing with extensive experience of corporate leadership in both executive and non-executive roles with a wide range of UK and international businesses. Previous executive roles include Chief Executive of Blick plc from 2001 until its successful sale to Stanley Works Inc. in 2004 and Managing Director of Ultraframe plc between 2004 and 2006.

External appointments

Senior Independent Non-Executive Director and Chair of the Remuneration Committee of Bunzl plc. Non-Executive Director and Chair of the Remuneration and CSR Committees of Manchester Airports Group.

Martyn Coffey Chief Executive

Term of office

Joined the Company and appointed to the Board in September 2013. Last re-elected in May 2020.

Length of service

7 years 4 months

Skills and experience

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

External appointments

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

Jack Clarke Group Finance Director

Term of office

Joined the Company and appointed to the Board on 1 October 2014. Last re-elected in May 2020.

Length of service

6 years 3 months

Skills and experience

Chartered Accountant. Joined Marshalls from AMEC Foster Wheeler plc, where he was Executive Vice President and Director of Change Management. 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. Extensive M&A experience. Previous experience includes senior finance and operational management roles with Halliburton and Mobil Oil. Holds an MSc (Civil Engineering) and BA (Economics and Management).

External appointments

None.

Committee membership

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



Gender composition

- Male (4)
- Female (3)



Length of service

- 1-2 years (2)
- 3-4 years (2)
- 5+ years (3)



Janet Ashdown

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



Term of office

Appointed in March 2015.
Last re-elected in May 2020.

Length of service

5 years 9 months

Skills and experience

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

External appointments

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

Graham Prothero

Non-Executive Director



Term of office

Appointed in May 2017.
Last re-elected in May 2020.

Length of service

3 years 5 months

Skills and experience

Chartered Accountant and Chief Operating Officer of Vistry Group PLC (appointed January 2020). Previously Chief Executive of Galliford Try plc. Also on the board of the Jigsaw Trust, a charitable trust. Extensive senior management experience in the sector, including with leading property developer Development Securities PLC (now U+I), Taylor Woodrow, the listed contractor/developer, and Blue Circle Industries plc. Also spent seven years as a partner in the Real Estate, Hospitality and Construction Group of Ernst & Young LLP.

External appointments

Chief Operating Officer of Vistry Group PLC.



Shiv Sibal

Group General Counsel and Company Secretary

Term of office

Appointed in May 2020.

Length of service

7 months

Tim Pile

Non-Executive Director*



Term of office

Appointed in October 2010.
Last re-elected in May 2020.

Length of service

10 years 3 months

Skills and experience

Leadership roles in a number of different industries such as banking, retail, marketing and consumer goods, as well as in the charity and public sectors – for organisations big and small. Formerly Chair of Cogent (the leading independent marketing agency), President of the Greater Birmingham Chambers of Commerce, CEO of Sainsbury's Bank and a member of the operating board and Non-Executive Director at Cancer Research UK.

External appointments

Chair of the Royal Orthopaedic Hospital. Chair of Greater Birmingham and Solihull LEP. 2022 Organising Committee Commonwealth Games.

*The Nomination Committee considered Tim Pile to be independent in thought and judgement in spite of his length of service.

Skills and experience

Experienced corporate finance lawyer by trade with nearly 20 years' experience, the last seven of which have been in industry at FTSE businesses. Extensive leadership and legal experience. Responsible for transforming the legal team's role in the business.

Angela Bromfield

Non-Executive Director



Term of office

Appointed in October 2019.
Elected in May 2020.

Length of service

1 year 3 months

Skills and experience

Broad based international career in manufacturing, distribution and construction and extensive commercial strategy, marketing and communications executive experience. Formerly, Strategic Marketing and Communications Director at Morgan Sindall plc until 2013 and prior to that held senior roles at the Tarmac Group, Premier Farnell plc and ICI plc.

External appointments

Non-Executive Director and Chair of the Remuneration Committee of Churchill China PLC. Non-Executive Director and Chair of the Remuneration Committee of Harworth Group PLC.



A solid platform for future growth with our culture, purpose and stakeholders at the fore



Dear shareholder

The last year, more than any other in recent times, has brought into sharp focus the importance of strong and decisive leadership with our shared purpose and culture as its driving forces. This shines through in all of the decisions we have taken this year and I am proud of what the business has achieved through this challenging period.

Our commitment to The Marshalls Way – to do the right things, for the right reasons, in the right way – underpinned the Board's ability to act decisively but in a measured and thoughtful way, taking into account the interests of all stakeholders. This is at the heart of what "good governance" means to Marshalls albeit we acknowledge that we have taken some tough decisions to ensure the long-term sustainability of the Group.

The case study on pages 56 and 57 details how we engaged with, and had regard to, the interests of our key stakeholders in the decisions taken as part of our response to the COVID-19 pandemic.

This Corporate Governance Statement explains how Marshalls' governance framework supports the principles of integrity, strong ethical values and professionalism integral to our business.

The Board recognises that we are accountable to shareholders for good corporate governance, and this report, together with the Reports of the Audit, Nomination and Remuneration Committees on pages 64 to 89, seeks to demonstrate our commitment to high standards of governance that are recognised and understood by all.



Achievements in 2020

- We have guided and supported the business through the challenges of the pandemic providing a solid platform for the delivery of our 5 year Strategy, announced last year.
- We have been agile, meeting frequently and evolving our approach in the face of a continually evolving pandemic. Decisions have been taken within the framework of the matters reserved for the Board's judgement ensuring appropriate operational flexibility for the business to respond to the day-to-day challenges it faced.
- We have maintained, albeit virtually, frequent and open engagement between the Board and the business on specific business areas and developments where the Board's experience and knowledge could make a positive and constructive contribution.
- We have evolved our Employee Voice Group, through which we engage with employees, to ensure broader representation from across the Group and a more focused agenda.
- Having regard to stakeholder interests remained implicit within all of our decision making with the COVID-19 crisis putting this to the test and a summary of our approach being set out on pages 56 and 57.
- We continued to invest in our people and products to drive the evolution of our environmental, social and governance agendas. Our strong commitment to ethical and sustainable business through The Marshalls Way and our Code of Conduct has been reinforced through a Group-wide training programme.

Priorities in 2021

- The Board will continue to support the business through the challenges the pandemic presents whilst ensuring we have appropriate momentum to, and investment in, the achievement of our longer-term strategic priorities.
- To give additional focus to our customers, through product and service innovation that drives brand loyalty and profitable growth, and to factor in the potential for market disruption.
- To support and enable clearer and wider communication of our environmental, social and governance ("ESG") commitments, which underpin our purpose to all of our stakeholders, and particularly our customers.
- To continue to invest in our people and our culture focusing on health and safety, succession, diversity and talent identification and development, these being critical to the long-term success of the Group.
- To establish further measurable goals to reduce our emissions and improve the sustainability of our products and operations.
- To develop our engagement with suppliers that support our commitment to doing business responsibly.
- To continue to ensure we do everything in The Marshalls Way: the right things, for the right reasons, in the right way.

Environmental, social and governance ("ESG") priorities

The Board views our approach to ESG as central to the achievement of our strategic objectives and the long-term sustainability of the business. The Marshalls Way guides everything we do and our ESG commitments and credentials demonstrate this clearly.

- Environmental – we take our environmental impact seriously and, in 2020, we had our carbon emissions targets approved by the Science Based Targets initiative.
- Social – we respect and value the dignity, wellbeing and rights of employees, their families and the wider community, as well as their safety.
- Governance – strong governance supported by effective leadership helps nurture our healthy corporate culture and our processes and controls enable us to operate ethically and responsibly.

Diversity

The Board recognises the opportunity greater diversity throughout the business represents and the challenge this presents in our sector. Ensuring we promote equality and diversity and prevent discrimination through the application of our policies is key as well as ensuring there is equality of opportunity for every role we recruit. Our commitment is supported by our Code of Conduct and central to our Group HR strategy.

At Board level, we have achieved greater gender balance but recognise the opportunity greater ethnic diversity presents. As members of the UN Global Compact, we have, during the last year, agreed to participate in Target Gender Equality, which is a gender equality accelerator programme that involves setting and reaching ambitious corporate targets for women's representation and leadership, starting with the Board and Executive Management levels. Challenging ourselves in this way is at the heart of The Marshalls Way.

Board evaluation

The Chair, with the support of the Company Secretary, conducted an internal evaluation of the Board and its Committees using a tailored online questionnaire that considered both performance during the year and future priorities for the Board. The Board also reflected on the findings of the externally facilitated review in 2019, taking into account the challenges presented by the pandemic. Page 62 of this report gives more detail on the most recent evaluation and the extent to which the objectives from 2019 were achieved.

Responsibility statement

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 92 and 94 to 100 respectively.

Vanda Murray OBE

Chair

11 March 2021

**Corporate Governance Statement** continued

Our response to COVID-19

The Group implemented an agile, operational plan to manage all parts of the business safely, whilst continuing to support customers. The Board provided oversight, support and challenge in ensuring the interests of all stakeholders were considered with appropriate prioritisation.

The impact of the COVID-19 pandemic on the business continues to be assessed on an ongoing basis. The Board sets the culture for effective risk management and has been actively engaged in the process throughout, providing regular and frequent oversight and assessing the adequacy of our systems and controls, particularly in light of some of the dramatic changes in the way we work that have been driven by the pandemic. Dynamic plans have been established, with specific risk assessments and carefully designed new operating procedures, all of which have the health and safety of our employees as the top priority. Our key stakeholders have been considered throughout and the Board has assessed mitigating controls and scenario planning that have been introduced by management. Consideration of our people, performance, capital structure and controls has been central to the Board's decision making throughout the pandemic.

Despite the disruption to normal working practices, we have maintained a strong focus on control and governance throughout the year. A specific internal audit project undertaken in 2020 confirmed that control integrity had been maintained. The business as a whole and the Board have acted with agility, and decisively, to bring stability to the Group.

Key challenges and decisions and how we responded

Key challenges	How we considered stakeholders
Health and safety • Safety and welfare of employees • Safety of customers and suppliers • Working from home challenges – wellbeing of employees and mental health	• Regular communication with employees, unions and employee representatives, customers and suppliers • Increased briefing and training for managers to ensure consistent and frequent messaging • Regular shareholder communication • Virtual meetings with shareholders, analysts and investors
Business continuity • IT systems and cyber security • Operation of plants and fleet • Managing customer relationships • Working from home • Additional sales channels • Maintaining control environment	• Regular detailed dialogue with employees, customers and suppliers • Additional training and awareness • Regular shareholder communication • Virtual meetings with shareholders and analysts • Virtual customer relationship management established
Liquidity and scenario planning • Ensuring adequate liquidity • Scenario planning and financial modelling • Risk of bank covenant breach	• Early and frequent dialogue with banking partners (RBS, Lloyds and HSBC) • Regular shareholder communication • Virtual meetings with shareholders and analysts – including discussions about the suspension of dividends and participation in Government furlough and tax deferral schemes
Operational issues • Significant drop in sales in March, April and May • Employees on furlough during this period • Managing "return to work" • Balancing inventory, supply and demand during second half of year sales growth	• Detailed dialogue with employees, unions, customers and suppliers • Regular shareholder communication • Virtual meetings with shareholders and analysts



Outcomes	Role governance played	Role of the Board
• New risk assessments • Additional standards and procedures introduced (going beyond Government guidelines) • Regular, and significantly increased communication and messaging using a variety of channels • Identified all vulnerable employees • Dedicated, independent helpline service • Establishing new frameworks for customer relationship management	• Controlled by dedicated specialist health and safety employees • Approval of new policies and procedures • Approved training protocols • Formal risk reviews reflecting evolving risk environment	• Attending several additional Board meetings • More frequent dialogue with senior management • Reviewed all policies and procedures • NEDs attended Risk Committee meetings during this period • Janet Ashdown leads Employee Voice Group – frequent meetings, feedback and communications, including consideration of the Group's response to COVID-19
• Plants operating safely • Fleet delivering to customers throughout • Rapid provision of additional IT to enable home working • Additional/enhanced financial controls introduced • Receiving and fulfilling orders • Maximising sales and leveraging fleet	• Central system introduced to identify "business critical" employees • Process adopted to identify and address issues relating to home working • Appropriate facilities introduced for "virtual meetings" for all employees • Additional cyber controls and training for home workers • Additional financial controls established	• Attending several additional Board meetings • More frequent dialogue with senior management • Reviewed the Group's approach and challenged key decisions • NEDs attended Risk Committee meetings during this period • Review and approval of shareholder communications
• Voluntary Board and senior management pay reductions • Range of financial models for different scenarios • Range of measures introduced to reduce/defer cost and cash spend • New bank facilities arranged (£90 million) • Variations to bank covenants agreed • CCFF facility established (issuer limit of £200 million)	• Detailed review of financial models and assumptions (including review by third party professional advisers) • Use of professional advisers where appropriate • Virtual meetings with major shareholders	• Attending several additional Board meetings • More frequent dialogue with senior management • Critical review of financial model assumptions • Meetings with external professional advisers • Review and approval of all shareholder communication
• Restructuring implemented to control costs and maintain efficiency • Certain site closures and changes to shift patterns • Focus on mitigating redundancies while satisfying customer needs • Inventory management – detailed production planning	• Central control system used to monitor and track furlough • Full consultation process led by Group HR • Tracking of daily sales • Ongoing "Executive Management" review of detailed production planning process and systems	• Attending several additional Board meetings • More frequent dialogue with senior management • Reviewed all policies and procedures • NEDs attended Risk Committee meetings during this period • Board focus on customer centricity



Compliance statement

This Corporate Governance Statement has been prepared in accordance with the principles of the UK Corporate Governance Code dated July 2018 (the "UK Code") which applies to the financial year 2020. We have complied with the principles and provisions of the UK Code throughout 2020. Our Governance sections over the following pages explain how the Group has applied the principles throughout the year and throughout the year and up to the date of this Annual Report.

1

Board leadership and Company purpose

- Led by strong and experienced Chair
- Entrepreneurial, diverse and decisive Board with clear strategic focus
- 2020 focus on sustainability in the face of the COVID-19 pandemic
- The Marshalls Way at the core of all decision making

Read more on [page 59](#)

2

Division of responsibilities

- Clear communication and information supporting effective decision making
- Constructive relationship between Board and senior management
- Challenge and support provided and well received by management
- Renewed emphasis on processes and resources driving efficiency

Read more on [page 60](#)

3

Composition, succession and evaluation

- Majority of independent Directors
- Diverse Board with relevant experience, knowledge and skills
- Exceptional term extension providing stability, supported by shareholders
- Annual effectiveness review

Read more on [page 62](#)

4

Audit, risk and internal control

- Structured oversight of external and internal audit functions and planning
- Oversight and participation in Risk Register reviews and determination of risk appetite
- Detailed consideration of pandemic's impact on Group's control environment
- Actions and outcomes monitored to ensure benefits realisation

Read more on [page 63](#)

5

Remuneration

- Revised, UK Code compliant, Policy supported by shareholders
- Alignment of outcomes with interests of all stakeholders
- Non-financial ESG measures embedded in incentive schemes
- Committee discretion to override formulaic outcomes

Read more on [page 63](#)

Role of the Board

The Board currently comprises an Independent Non-Executive Chair, 4 Non-Executive Directors and 2 Executive Directors. Their biographical details are on pages 52 and 53.

Our Schedule of Matters Reserved for the Board, reviewed annually and available on our website, includes:



Delegation to Board Committees

The Board delegates specific responsibilities to the Audit, Remuneration and Nomination Committees. The Audit Committee Report on pages 66 to 69 provides details of the Board's application of UK Code principles in relation to financial reporting, audit, risk management and internal controls. The Nomination Committee Report on pages 64 and 65 reports how Board and senior management composition, succession and development are managed to reflect UK Code principles. The Remuneration Report on pages 70 to 89 explains how the Group's Remuneration Policy has been implemented, and shows Directors' remuneration for 2020. The Remuneration Report also provides gender pay and balance information. Ad hoc Board Committees are established for particular purposes: for example, during 2020 Board Committees were established to approve preliminary and half year results.

Delegation to the Executive and management

Day-to-day management and the implementation of strategies agreed by the Board are delegated to the Executive Directors. The Group's reporting structure and controls below Board level are designed so that decisions are made by the most appropriate people in an effective and timely manner. Management teams report to members of the Executive Committee (comprised of senior managers, including the 2 Executive Directors). The Executive Directors and other Executive Committee members give regular briefings to the Board in relation to business issues and developments. Clear and measurable KPIs are in place to enable the Board to monitor progress. This structure, our controls and our transparency enable the Board to make informed decisions on key issues including strategy, capital structure and our risk appetite taking into account the interests of all of our key stakeholders.



1

Board leadership and Company purpose

Leadership and purpose

Effective leadership and a healthy corporate culture are key enablers for good governance, supported by robust systems and processes and a good understanding of risk and risk appetite. Our Strategic Report on pages 1 to 37 explains how we seek to fulfil our purpose, how this is supported by our policies and procedures and how we identify and manage our key risks.

The reports of our Board Committees give further detail on how our policies and processes have been applied and developed during the year in particular areas and how this relates to our values and strategy.

Being agile and resilient and ensuring we have a safe and stable platform for the execution of our long-term strategy have been core to the Board's leadership during the last year. Our culture and purpose have ensured there was a collective will to take difficult decisions to support the long-term sustainability of the business and ensure we are able to capitalise on opportunities that we are confident the execution of our strategic plan will bring.

In spite of the challenges the pandemic has presented, the results of our annual employee engagement survey, various smaller "pulse" surveys conducted during the year and, importantly, the Board's direct engagement with employees throughout the year give the Board confidence that the Group's purpose, values and strategy remain aligned with our culture.

The Group's dynamic management of the crisis is testament to its culture and to the credit of all employees across the Group who have been led by a strong senior leadership team. We are not complacent and recognise that there is more work to do to build on this, particularly having completed a comprehensive restructuring exercise as part of our management of the impact of the pandemic.

The Board is confident the Group's application of the UK Code principles during 2020 will drive its long-term sustainable success by providing a platform to execute the strategic plan the Board approved in 2019. That strategic plan remains well balanced and considers the interests of all of our key stakeholders. Our environmental and social reports on pages 38 to 51 demonstrate that the execution of our strategy addresses our impact on these areas and some of the benefits we hope to bring to them.

The Group HR Director, supported by the HR and senior management teams, has supplemented the work on our culture and the Code of Conduct with a comprehensive training programme through which our leaders engage directly with their teams to help them understand the role each employee plays in maintaining and building on our culture.

The Board receives regular updates from the Executive Directors on the agreed KPIs set out on pages 22 and 23 that enable it to determine whether the Group's objectives are being met and provide additional challenge and support where necessary.

The Group's control and risk management frameworks are reviewed annually and have, during the year, been critically reviewed in light of the additional challenges presented by the pandemic. The Group's Risk Register is reviewed at least twice a year and our internal audit plan takes into account the results of these reviews. The Board and the Audit Committee receive periodic reports from the internal auditor on a range of topics each year that are approved by the Audit Committee.

Further details of our approach to risk identification and management are set out in the Strategic Report on pages 24 to 31.

The Board has continued to regularly engage with shareholders and employees not allowing the practical challenges to be an obstacle. The use of technology has enhanced the Board's ability to schedule meetings with shareholders in particular and is likely to be combined with in-person meetings in the future.

Our Employee Voice Group has evolved and gained momentum developing into a more representative and active format which understands the benefits of regular engagement with our Board, through our designated Non-Executive Director for employee engagement, Janet Ashdown, who participated in a number of the EVG meetings in 2020. Further details of how we engage with employees are set out in the Environmental, Social, Governance section on pages 48 to 50; building on this success will be an area of focus in 2021.

The implementation of our HR strategy and the development of our HR team are central to the delivery of our Group strategy. Our Group HR Director engages with the Board on our progress with improving recruitment, retention, development and progression supported by an aligned reward strategy that is fair and with diversity and inclusion being the central themes guiding us in these areas.

Central to progress this year has been an incredibly effective communication programme that has supported our management of the impact of the pandemic and ensured all employees, including those operational employees not connected through technology, have the information they need to work safely and in line with Government guidelines. Additionally, we have implemented a substantial number of additional processes and procedures to support our management of the pandemic, all of which reflect our values.

Conflicts and concerns

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

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

Whistleblowing

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

*Read more about diversity on **page 55***

*Read more about sustainability, ethics and climate change from **page 38***



2

Roles and division of responsibilities

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Annual Report and Accounts 2020



Tim Pile's independence

We consider Tim Pile to be independent even though he has served more than 10 years as a Non-Executive Director. We are mindful that the UK Code directs that this length of service is likely to impair, or could appear to impair, his judgement but we strongly believe this not to be the case given Tim's track record with the business.

Tim continues to bring invaluable support and experience to the business whilst, together with the Chair and the other Non-Executive Directors, effectively holding the Executive Directors to account on behalf of shareholders. He remains independent in thought and judgement and the extension of his term will enable us to apply the necessary rigour to the appointment of his successor whilst continuing to benefit from the constructive challenge and objective judgement he provides. Aside from his length of service, there are no other relevant factors (as set out in UK Code Provision 10) that would affect his independence. The Chair has conducted an individual performance evaluation of all the Directors, including Tim, and has concluded that Tim's contribution remains extremely valuable, particularly given his knowledge and experience of the Group and that his independence has been maintained.

Board meetings

There is an established format and programme for Board meetings, which, for the most part, were held virtually during the last year. This has been supplemented by a forward-looking planner that gives focus to Board business for the year ahead and ensures an appropriate balance between the Board's consideration of strategy, operations and governance. This planner is flexible and regularly updated to ensure any urgent matters can be escalated to the Board at the earliest opportunity.

The Chief Executive and the Group Finance Director report on operational and financial performance respectively at each Board meeting. Health and safety is also considered by the Board, and reported against, on a standalone basis at every scheduled Board meeting given its central importance to safely operating a manufacturing business.

The Board also attended the Group's strategy day in November 2020, which was held virtually and involved engagement with key members of the senior management team and other senior leaders in the business in considering the Group's eight strategic priorities.

In addition to the standing items on the Board's agenda, the principal areas of focus discussed by the Board in 2020 were:

Strategy

- Group strategy including culture and purpose
- COVID-19 response
- Sustainability and climate change
- 2021 budget
- Capital adequacy, structure and dividends
- HR strategy
- Operations strategy (including supply chain, manufacturing and logistics)
- Digital strategy
- New product development
- Emerging businesses
- Marketing strategy
- Market, sector and competitor updates

Operations

- COVID-safe operating processes and procedures
- Management of major customer projects
- Customer specification
- Brexit planning
- Group restructuring
- Employee engagement, morale and succession planning

Governance and risk

- COVID-19 crisis response
- Culture and Code of Conduct
- Board composition, succession and diversity
- Investor feedback
- Employee Voice Group feedback
- Whistleblowing
- Ethical sourcing and modern slavery
- Cyber security and data protection
- Stakeholder engagement
- AGM voting and guidance



3

Composition, succession and evaluation

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

We believe our Board is diverse and has a good combination of skills, experience and knowledge. The Board reviews its own composition each year and assesses whether the current skills, experience and knowledge are aligned with the Group's strategy and expected future leadership needs.

How Board priorities were addressed during the year

Culture

- Group-wide rollout of our new Code of Conduct, setting our purpose and defining The Marshalls Way. Supported by comprehensive trainee programme.
- Board engaged extensively with the business, in spite of the challenges presented by the pandemic, in areas such as: risk identification and management with the senior management team and other senior leaders; marketing and digital strategy; and new product development.
- Reviewing the scores and written feedback from the employee engagement survey and agreeing objectives for both participation and overall engagement.

Stakeholder engagement

- Board has received presentations on our customer and product initiatives and engagement.
- Our Employee Voice Group has evolved with Janet Ashdown, in her capacity as designated Director for employee engagement, participating in a number of sessions with the Group and providing feedback to the Board throughout the year.
- Business engagement and regular dialogue with suppliers have been critical to our management of the impact of the pandemic and Brexit with further emphasis to be placed on this in 2021.
- Board engagement with shareholders has been maintained with regular formal announcements during the year combined with customary post half year and full year investor roadshows. In addition, the Chair and the Senior Independent Director have engaged with shareholders on governance and their areas of focus.

Succession planning

- Implemented senior management team changes following the restructuring exercise implemented during the year.
- New Group Director for Emerging Businesses and General Counsel and Company Secretary recruited and appointed to the senior management team.
- Board conducted a detailed review of performance and succession for the senior management team including consideration of the Group's talent pipeline, diversity and opportunities for development and progression.

The Board acknowledges the benefit of refreshment and has a clear succession plan designed to ensure that Board members' terms expire or they retire over clearly defined periods, normally not exceeding nine years. There is an annual effectiveness review which, for 2020, was conducted internally by the Chair and the Company Secretary (as referenced in the Chair's introduction).

All Directors stand for election or re-election (as appropriate) at every Annual General Meeting, and all current Directors will stand for re-election or election at the 2021 Annual General Meeting. The Directors' biographical details on pages 52 and 53 show their roles, date of appointment and length of service on the Board.

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

Focus areas and actions to enhance effectiveness in 2021 (from 2020 review)

The 2020 Board evaluation was conducted internally by the Chair and Company Secretary using a comprehensive tailored questionnaire that evaluated Board behaviour and processes as well as providing the Board an opportunity to reflect openly on the Board and Group's strengths, weaknesses and opportunities, threats and strategic priorities. The evaluation concluded that the Board, throughout the year, has been focused, agile, collaborative and decisive. Our strong culture has helped us weather the COVID-19 storm, but we must be mindful of maintaining this given the challenges and extra pressure all of our employees have faced during the last year.

Board engagement and visibility, both at meetings and with the wider business, remain strong even though limited to virtual sessions for most of the year. Areas identified for further development were:

Board and Executive succession planning

- The pandemic has, to a degree, frustrated this but it remains the highest priority item with an improvement in diversity being a key recruitment objective.

ESG

- A clear articulation of what ESG means at Marshalls and its position in the context of our strategic priorities, and as a foundation of our long-term sustainability, is important to all of our stakeholders. Investors, customers, suppliers and employees alike want to understand our credentials and, most importantly, our objectives and how we measure our performance against these.
- Ensuring our ESG credentials drive competitive advantage and provide returns not only to society but to shareholders by driving business performance and supporting our ability to attract and retain the best talent.

Capitalising on strategic opportunities

- Ensuring our strategic priorities continue to enable us to capitalise on the strong markets in which we operate and are mindful of market disruption, which remains a key threat.
- Whilst an operational restructuring exercise was completed during the year, there remains more to do, particularly by leveraging technology to drive efficiency in our manufacturing and logistics. Selective acquisitions in complementary areas may provide an opportunity to capitalise on a strong market but more focus needs to be given to the integration of new businesses.



4

Audit, risk and internal control

The Board has established written policies and procedures for external and internal audit functions designed to ensure that they remain independent and effective and these are regularly reviewed. Annual questionnaire based evaluations are conducted of both our internal and external audit partners with the Board and members of the senior management team participating. The Board scrutinises financial and narrative statements in accordance with best practice supported by the advice of the auditor.

The Board has a well-established procedure to identify, monitor and manage risk, and has carried out reviews of the Group's risk management and internal control systems and the effectiveness of: all material controls, including financial, operational and compliance controls; and the mitigation of material risks.

The Strategic Report comments in detail (pages 1 and 37) on the principal risks facing the Group, in particular those that would threaten our business model, future performance, solvency or liquidity, and the controls in place to mitigate them. The Board conducts a rigorous assessment of these risks, particularly operational risks that might affect the Group's viability in the short term and emerging risks that might impact the medium to longer term.

The Board's risk and viability review incorporates stress testing, by envisaging scenarios that might arise during the financial year and/or the planning cycle, and considering, with financial impact modelling where appropriate, the likely effect on the business and its prospects. Additionally, the outcomes of our risk reviews drive our internal audit planning ensuring our resources are being directed at the most appropriate areas.

The Board reviewed the Group's risk management system and the system of internal control at risk review meetings in July and November 2020. The Risk Register was reviewed by the Audit Committee in December 2020 and the Non-Executive Directors carried out a standalone risk review in December 2020, the outcome of which has been incorporated into the Risk Register. In addition, our internal and external auditors participated in our most recent risk review meeting in November 2020. Our approach underpins our commitment to transparency in managing risk and internal controls and lends additional efficacy to our procedures.

In addition to our scheduled reviews, our risks and controls have all been carefully assessed to take into account the continuing impact of the COVID-19 pandemic. Internal audits carried out during the year have also specifically challenged whether we have made appropriate adjustments to the controls in the areas being reviewed to address the pandemic's impact.

The Audit Committee Report on pages 66 to 69 describes the internal control system, how the Board assures itself of the independence and effectiveness of internal and external audit functions and how they are managed and monitored.

The Board acknowledges that such systems are designed to manage, rather than eliminate, the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.

*Read the Audit Committee Report on **pages 66 to 69***

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Remuneration

The current Remuneration Policy was approved by shareholders in 2020 and is set out in the Directors' Remuneration Report on pages 70 to 89. It addresses the relevant requirements of the UK Code and was prepared in consultation with the Company's top 20 shareholders and external voting agencies.

The Remuneration Committee Report describes how the Remuneration Policy has been implemented during 2020 and the outcomes achieved. It also describes how the Remuneration Committee has carried out its responsibilities during the year.

The Remuneration Committee continues to effectively discharge the duties delegated to it by the Board under the leadership of the Committee Chair, ensuring outcomes reflect performance and taking a holistic view of remuneration across the Group, having consulted employees appropriately, the importance of which is recognised by the Board.

*Read the Remuneration Committee Report on **pages 70 to 89***

Vanda Murray OBE

Chair

11 March 2021



Focusing on succession and our commitment to diversity and inclusion



"Our experienced, multi-skilled and agile Board has effectively supported the Group's handling of the pandemic whilst not losing sight of the importance of effective succession in delivering the Group's longer-term strategy."

Members and attendance

	Meetings
Vanda Murray OBE – Chair	✓✓✓
Janet Ashdown – SID	✓✓✓
Graham Prothero	✓✓✓
Tim Pile	✓✓✓
Angela Bromfield	●✓✓

Find our Terms of Reference and Nominations Policy at marshalls.co.uk/about-us/corporate-governance

Dear shareholder

I am pleased to report to shareholders on the main activities of the Committee and how it has performed its duties during 2020. I chair Nomination Committee meetings, but would not do so where the Committee was dealing with my own reappointment or replacement as Chair.

2020 highlights

- Secured an extension to Tim Pile's term of office beyond his previously announced retirement date at a time when a stable, experienced Board with a proven record of working cohesively was critical to navigating the Group through the COVID-19 pandemic. A further one-year extension to Tim's term has been agreed to facilitate a comprehensive search for his successor.
- Reviewed and approved the Group's Nominations Policy including the importance of introducing, and our resolve to introduce, even greater diversity at both a Board and senior management team level, by thinking differently given the sector-wide challenge this presents.
- Received updates on the Group's restructuring exercise in the first half of 2020 which was separately considered and approved by the Board.
- Reviewed individual Director performance identifying areas for development.
- Reviewed succession planning, both for the Board and senior management team, particularly in light of changes following the restructuring exercise with a focus on providing clear development opportunities for the Group's high performing employees.

2021 priorities

- Providing support to the reinvigoration of the business following the pandemic that will drive the Group's long-term strategy.
- Management of Board succession, including the appointment of a successor to Tim Pile.
- Supporting strategy and initiatives to promote diversity and cultural values, including the application of our policy principles and the creation of the Group's Equality Taskforce, whose mission is to make Marshalls an inclusive employer where everyone can thrive and belong.
- Focus on succession, development and progress below Board level.



Marshall's Nominations Policy

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

Policy principle	Supporting measures	How implemented in 2020
- Recruitment and succession reflect the strategic needs of the business - Recruitment contributes to desired values and culture	- Nomination Committee carries out an annual skills review aligned with 3–5 year strategic plans - New Directors agree commitment to strategic direction and Group policies	- Extension of Tim Pile's term reflecting strategic needs at a time when experience and stability were critical - New appointment designated to add skills, experience and diversity appropriate for the Group's strategic ambitions; Norman Broadbent Solutions (independent recruiter with no other connection to the Company) instructed to conduct this search to find a successor to Tim Pile
Recruitment to achieve diversity in widest sense	- Policy sets direction and gives leadership - Brief for search consultants for new Board and senior management appointments - Diversity initiatives/succession plans at Executive level reviewed and targets monitored	- Revised Diversity and Inclusion Policy reviewed in 2020 - Briefs to Norman Broadbent Solutions set diversity as a key objective - Further development of our HR reporting framework to include corporate culture, employee engagement and gender diversity statistics - Detailed review of senior management team succession and identifying the creation of development opportunities for the Group's talent pipeline as an area for improvement
There should be a clear formal Board succession plan based on objective criteria	- Annual review of terms of office - Annual individual evaluation - Use of independent external search advisers	- Review completed in 2020 - Individual evaluations January 2020 - Norman Broadbent Solutions retained for Board and senior management recruitment
Directors must devote sufficient time to perform effectively and familiarise themselves with the business	- Limit on other Board appointments - Detailed induction, site visits, training and employee engagement programme	- Recruitment process addresses existing commitments and risk of "over boarding" - Included in letters of appointment - Board training and visit programme as part of Director induction - Site visits have been suspended but the Directors have engaged virtually on risk, new product development, digital progression and marketing as well as participating in our annual strategy day (which was held virtually)
Compliance/good governance	- Conflicts policy and register reviewed no less than 6 monthly - Annual re-election of Directors	- Reviews in June and December 2020 - All Directors stood for election/re-election in May 2020

The performance of the Committee was evaluated as part of the Board evaluation process in 2020 described on page 62. The Committee Terms of Reference were reviewed and updated in December 2020 and reflect the requirements of the UK Corporate Governance Code published in July 2018 (the "UK Code"), which applies from 1 January 2019.

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

Evaluation and reappointment of Directors

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

Before any Director is proposed for re-election, or has their appointment renewed, the Committee considers the outcome of the reviews to ensure that the Director continues to be effective and demonstrates commitment to the role. The Chair provides an explanation to shareholders as to why the Director should be

re-elected and confirming that a formal performance evaluation has taken place when the resolution to re-elect is circulated.

It is the Company's policy that Executive Directors can only hold one external listed company non-executive directorship. Voluntary service on the governing board of a social, trade or charitable organisation is also permitted. Details of the external appointments held by the Executive Directors are included in the biographical notes on pages 52 and 53.

Governance

The Committee has acted throughout 2020 in accordance with the principles of the UK Code. In addition, the Committee has assessed its effectiveness during 2020 against the UK Code as part of the annual Board evaluation process. The evaluation concluded that the Committee has been successful in securing a diverse range of skills and experience in the current Board. The framework for the refreshment of skills, experience and diversity to support the needs of the business and its stakeholders in the future is transparent and well understood.

Vanda Murray OBE

Chair of the Nomination Committee
11 March 2021



Reinforcing our control environment in a turbulent year



"Despite the disruption to normal working practices, Marshalls maintained a strong focus on control, risk management and governance throughout the year."

Members and attendance

	Meetings
Graham Prothero – Chair	✓✓✓✓✓
Janet Ashdown – SID	✓✓✓✓✓
Tim Pile	✓✓✓✓✓
Angela Bromfield	✓✓✓✓✓

Find our Terms of Reference and Nominations Policy at marshalls.co.uk/about-us/corporate-governance

Dear shareholder

In this report I set out the Audit Committee's objectives and responsibilities and also explain the activities undertaken during 2020 and the priorities for 2021. This report, which is part of the Directors' Report, explains how the Audit Committee has discharged its responsibilities during 2020 and provided focus and governance in response to the impact of COVID-19.

2020 highlights

- Provided assurance to the Board on whether the 2020 Annual Report and Financial Statements, taken as a whole, is fair, balanced and understandable.
- Reviewed the measures taken to ensure the maintenance of sufficient liquidity within the Group's capital structure. This included the establishment of £90 million of new bank facilities and a facility line of £200 million under the Government's CCFF commercial paper programme.
- Reviewed the stress test financial modelling, forecasts and sensitivity analyses, including the scenario planning and assumptions used, to conclude on the Group's going concern assessment and Viability Statement.
- Provided assurance to the Board in relation to the maintenance of appropriate financial control systems and procedures during the pandemic and the adequacy of additional procedures introduced as a consequence of the majority of office staff working from home for most of the year.
- Carried out a detailed review of the outcomes of cyber security audits undertaken by KPMG LLP in order to improve cyber security controls and to ensure that IT controls remain appropriate and robust.
- Commissioned a number of other internal audit reviews by KPMG LLP in relation to the Group's response to COVID-19, business continuity and IT disaster recovery, the integration of Edenhall, recruitment processes and supplier tendering.

2021 priorities

- To focus on transparency, the clarity of reporting and the consistency of messaging across all communication and regulatory channels and over all areas of the business.
- To review the delivery of the external and internal audit, to monitor progress and to monitor changes in external regulatory environment and best practice. The Committee



will continue to oversee the disclosure of significant financial judgements made by management.

- To assess and improve cyber security controls and ensure that IT controls remain appropriate and robust. This will involve further cyber security audits.
- To review the findings from internal audit reviews to be undertaken by KPMG LLP and monitor the implementation of recommendations made in these reports and progress with actions from previous reviews. There are additional internal audit reviews planned for 2021, including a review of the Group's crisis management plans, focusing on the lessons learnt from the Group's planning and response during the critical phases of the COVID-19 pandemic in the second quarter of 2020. Further audits planned for 2021 include payroll controls and processes, the accounts receivable function and a maturity assessment of the delivery of the Group's ESG strategy.

How the Audit Committee operates

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

The Committee meets both the external and internal auditor independently of management, ensuring 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 Committee's role in advising the Board in response to the impact of COVID-19

In response to COVID-19, the Group took decisions to control costs and maintain cash liquidity. An operational restructuring programme was completed to reduce fixed costs and improve operational efficiency. The Group signed agreements with its banking partners for additional short-term facilities amounting to £90 million, which significantly strengthened the Group's headroom. In addition, the Group entered into a facility line under the Government's COVID-19 Corporate Financing Facility ("CCFF") with an issuer limit of £200 million.

The Board and Executive Management of Marshalls volunteered to take a 20 per cent reduction in remuneration. Senior managers in the business also took a 15 per cent reduction in their remuneration. Additionally, the Group utilised the Government's scheme which allowed the deferral of tax payments and also utilised the Government's Coronavirus Job Retention Scheme ("CJRS") to furlough employees. In the final quarter of 2020, all funding assistance received under these schemes was repaid in full and the remuneration saved, amounting to £120,000, was paid to Marshalls' nominated charities. The Board also withdrew the previously announced 2019 final dividend and supplementary dividend to preserve cash. Despite the disruption to normal working practices, Marshalls maintained a strong focus on control, risk management and governance throughout the year. Health and safety has remained the key area of focus throughout.

The Audit Committee provided advice and assurance to the Board in respect of all of the key decisions taken to address these issues. The combination of these actions has enabled the Group to maintain a strong balance sheet and a flexible capital structure containing significant liquidity headroom.

Effectiveness of the Audit Committee

During the year, an external evaluation of the Committee's performance was undertaken as part of the Board evaluation process. This is explained in detail in the Corporate Governance Statement on pages 54 to 63. The review found the Committee to be well composed, effective and well run. No areas of concern were highlighted during this review although a number of agreed actions have been taken forward.

The Chair of the Committee is a Chartered Accountant and the Board is satisfied he is independent and has recent and relevant financial experience as required by the Code. Other members also have relevant sectoral and financial experience. Their biographical details are on pages 52 and 53.

External audit

Deloitte LLP was appointed in May 2015 as statutory auditor, following a tender process. The Committee has adopted policies to safeguard the independence of its external auditor, Deloitte LLP. It is the policy of the Company that the external auditor should not provide non-audit services, other than those that are "de minimis" in value, of less than £5,000 in aggregate in any financial year. Any other non-audit services require the specific approval of the Committee. Where the Committee perceives that the independence of the auditor could be compromised, the work will not be awarded to the external auditor. Details of amounts paid to the external auditor, and its entire network, for audit and non-audit services in 2020 are analysed in Note 3 on page 118. Other than the half-yearly review of Marshalls plc, for which a fee of £30,000 was charged (2019: £20,000), no amounts were paid for non-audit work during 2020. The aggregate amount paid to other firms of accountants for non-audit services in the same period was £222,000 (2019: £240,000).

Effectiveness of the external audit

An annual review of external audit effectiveness was undertaken by the Committee in 2020. The conclusion of the review was that the external auditor had conducted a comprehensive, appropriate and effective audit. Communication, at all levels, had been open and constructive and areas where the external auditor could work more effectively, in respect of each phase of the audit, were identified.

Internal audit

The internal audit process is carried out by KPMG LLP, and the annual internal audit programme uses a risk-based assessment that takes into account the Risk Register and management input. KPMG attends the Group's Risk Register review meeting on a regular basis. This risk-based assessment is reviewed and approved by the Audit Committee, and the process is overseen by the Group Finance Director. KPMG LLP is independent from the Company's external auditor and has no other connection with the Group.

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

During the year, in addition to the regular internal control process, KPMG LLP conducted specific reviews on the Group's response to COVID-19, business continuity and IT disaster recovery, cyber security, the integration of Edenhall, recruitment processes and supplier tendering.

The Committee is pleased to report that, although the wider risk of cyber fraud continues to increase, no significant failings or weaknesses were identified during the year and the Group's significant investments in enhanced cyber security measures and systems have enhanced its maturity in this area. There were no incidences of fraud that significantly affected the Group's business during 2020. A rolling programme of cyber security awareness training is undertaken and external presentations are made periodically to selected groups of employees by specialists from the Group's banking partners.



The Committee's roles and responsibilities

During 2020, the Committee focused on a range of significant issues and other accounting judgements relating to the Group's Financial Statements. The Committee also provided oversight over the external and internal audit functions as well as reviewing the Group's risk management and internal control systems and procedures. An overview of the Committee's activities over the year is set out in the table below.

Responsibility area	Primary responsibilities	Activities undertaken during 2020
Financial reporting	- To review, with both management and the external auditor, the more significant judgements made and the quality and appropriateness of the Group's accounting policies. - To review the assumptions and disclosures made in the Financial Statements. - To assess the clarity of disclosures and compliance with stock exchange and regulatory requirements. - To provide assurance to support the long-term Viability Statement and the procedures for evaluating the Group's going concern assessment. - To review the integrity of formal announcements relating to the Group's financial performance, including the half year and full year Financial Statements.	- Monitored the integrity of the full year and half year Financial Statements and assessed critical accounting policies and practices, and compliance with accounting standards. - Assessed key areas of judgement in relation to significant issues relating to the Financial Statements. The main area of judgement was the disclosure of the accounts charge for "operational restructuring costs and asset impairments" as a separate item on the face of the Income Statement due to its scale and exceptional nature. The Committee reviewed the findings of the external auditor and considered the assessments and conclusions made by management. - Reviewed the additional trading updates issued during the year which provided regular communication to shareholders in relation to financial performance and the Group's response to COVID-19. - Approved the Viability Statement – and reviewed the assumptions and financial modelling underpinning the assessment, including the adequacy of scenario planning. - Reviewed the Group's capital structure in light of COVID-19 together with both the capital allocation and dividend policies. - Approved the going concern statement – and advised the Board that the Group is able to continue in operation and meet its liabilities as they fall due for at least the next 12 months. - Reviewed ESG disclosures, including the Group's climate change strategy and objectives and its commitment to science-based targets.
Risk management	- To assess and review the effectiveness of the Group's risk management framework and procedures. - To advise the Board on current and emerging risks.	- Reviewed the operation of the Group's Risk Committee, which comprises the Executive Directors and members of senior management. During 2020, Board members attended both of the half-yearly risk meetings. The Risk Register process is set out in more detail on pages 24 and 25. - Played a central role in the Group's risk reviews during 2020 and the risks associated with the COVID-19 pandemic have been the subject of detailed review by the Committee. Changes in the control environment as a consequence of the COVID-19 crisis have been a particular focus of the Committee and KPMG was commissioned to include a targeted internal audit project covering this area. - Provided oversight into the risk process. Actions have been reported and detailed plans have been formulated to improve financial control, compliance and governance.
Internal control	- To review the internal control framework to ensure that the checks and balances in the processes effectively reduce risk and the likelihood of material error or fraud. - To review the effectiveness of the Group's internal control systems, covering financial, operational and compliance controls.	- Reviewed the underlying policies and procedures. - Assessed the risk of management override of controls including authorisation controls and segregation of duties. The Committee considered those areas where management applies judgement in determining the appropriate accounting and discussed this with the external auditor. The external auditor presented its findings and its use of data analytics. - Reviewed the Group's processes for the ongoing assessment of operational, financial and IT-based controls. A rolling programme of independent checking is undertaken focusing on key controls, reconciliations and access to, and changing permissions on, base data.



Responsibility area	Primary responsibilities	Activities undertaken during 2020
External audit	- To make recommendations to the Board on the appointment, reappointment and removal of the external auditor. - To consider the independence and objectivity of the external auditor – and to approve the external auditor's fees. - To agree the nature and scope of the audit with Deloitte LLP. - To review the external auditor's findings and its key focus areas.	- The Group's current auditor, Deloitte LLP, has processes in place designed to maintain independence, including regular rotation of the audit partner. The Committee advised on the appointment of Dave Johnson as the audit partner for Deloitte LLP in May 2020, following the retirement, by rotation, of Christopher Robertson. The Company has complied with the Competition and Markets Authority's Order for the financial year under review. - Provided focus and challenge in relation to materiality and effectiveness of planning. The Committee also challenged the sufficiency and appropriateness of audit evidence.
Internal audit	- To review the effectiveness of the internal audit function and the work of KPMG, as internal auditor, and the internal audit programme. - To review the recommendations of KPMG and the responses and action plans of management.	- Reported on actions and detailed plans that have been formulated to improve financial control, compliance and governance. No significant weaknesses have been identified during the year. - The KPMG internal audit confirmed that Marshalls' response to COVID-19 was underpinned by good governance. Key controls in high risk areas, such as resource planning, supplier terms, financial modelling and cash flow forecasts, were redesigned to adapt to changing and emerging risks. KPMG also concluded that the logistical challenges of remote working were well considered in the Group's COVID-19 response.
Other matters	- To oversee and review the effectiveness of the following policies: - Serious Concerns Policy and whistleblowing procedure; - Anti-Bribery Policy; and - Cyber Security Policy.	- Reviewed the Committee's Terms of Reference. - Ensured that the procedures in place in relation to each of these policies are appropriate. - Reviewed the effectiveness of procedures underlying the Serious Concerns helpline and for handling allegations from whistleblowers.

Effectiveness of the internal audit

An annual review of internal audit effectiveness and of the performance of KPMG LLP as independent internal auditor was undertaken by the Committee in 2020.

The conclusion was very positive and was that the current internal audit process continues to be an efficient and effective means of managing the internal audit function. The Committee has considered, with KPMG LLP, how this process can be developed further and further improvements have been reflected in the 2021 plan.

Fair, balanced and understandable

The Committee has considered whether, in its opinion, the 2020 Annual Report and Financial Statements is, taken as a whole, fair, balanced and understandable, and whether it provides the information necessary for shareholders to assess the Group's position, performance, business model and strategy. As part of its review the Committee considered the disclosures in the Strategic Report relating to the Group's 5 year Strategy together with the enhanced disclosures relating to the Group's ESG objectives, sustainability and climate change risks and opportunities and targets. The Committee also considered the adequacy of the disclosures made in relation to the consequences of COVID-19 and the measures undertaken by the Group to mitigate risk. In making this assessment, the Committee has advised the Board in relation to the statement required by the UK Corporate Governance Code.

The Committee has concluded that the disclosures, and the process and controls underlying their production, were appropriate to enable it to determine that the 2020 Annual Report and Financial Statements is fair, balanced and understandable.

Whistleblowing and bribery

The Audit Committee monitors on behalf of the Board any reported incidents under the Serious Concerns Policy (our Whistleblowing Policy), which is available to all employees. A third party organisation, Safecall, has been appointed to handle all concerns independently and confidentially on behalf of the Group. These procedures are embedded into the Code of Conduct and are relevant to all stakeholders including suppliers, partners and employees. The policy and the Safecall process are displayed on operating site noticeboards and on the Company's intranet, and set out the procedure for employees to raise legitimate concerns about any wrongdoing without fear of criticism, discrimination or reprisal. The Committee is satisfied that arrangements are in place for the proportionate and independent investigation of such matters and for appropriate follow-up action. The outcome of any investigation and recommended action is reported to the Board.

The Company is committed to a zero-tolerance position with regard to bribery, made explicit through its Anti-Bribery Code and supporting guidance on hospitality and gifts. The policy and procedures are published on the Company website and displayed on operating site noticeboards. Online training is available to all employees to reinforce the Anti-Bribery Code and procedures, and (when circumstances permit) classroom-based training sessions are also held periodically. There is a maintained register of employee interests and a gifts and hospitality record.

I would like to thank our shareholders for their continued support during the year. I will be available at the Company's 2021 AGM to answer any questions in relation to this report.

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

Graham Prothero
Chair of the Audit Committee
11 March 2021



Resilience through a challenging year



"Our Remuneration Policy continues to be strongly aligned with our shareholders' interests."

Members and attendance

	Meetings
Janet Ashdown – Chair	✓✓✓✓
Vanda Murray OBE	✓✓✓✓
Tim Pile	✓✓✓✓
Graham Prothero	✓✓✓✓
Angela Bromfield	● ✓✓✓

The CEO attends the Committee meetings by invitation but may not participate in discussions about his own remuneration. The Company Secretary acts as secretary to the Committee and attends Committee meetings, along with the Group Human Resources Director.

Find our Terms of Reference at marshalls.co.uk/about-us/corporate-governance

2020 highlights

- New Remuneration Policy approved by shareholders at our 2020 AGM following a comprehensive shareholder consultation.
- Board and senior management team voluntary pay reduction of 20 per cent in April and May.
- In light of the continuing uncertainty associated with the pandemic, any decision regarding changes to Executive Director and senior management remuneration packages for 2021, and indeed changes for the wider workforce, was deferred.
- Incentive plan targets set for 2021 using robust financial and non-financial measures designed to align with strategic objectives and shareholder interests and which take into account current expectations and the continuing market uncertainty.
- Employee Voice Group now well established as the forum through which Janet Ashdown (the designated Non-Executive Director for workforce engagement) engages with employees and stakeholders on pay and benefits with some changes to its structure being implemented during the year to make it even more representative.
- Reviewed the success of the 2020 action plan for engagement with employees and other stakeholders on remuneration.
- Reviewed alignment with wider workforce pay policies and incentives as part of a wider review of Group reward strategy.

2021 priorities

- Determine whether any changes to Executive Director and senior management remuneration packages for 2021 are appropriate, having taken into account the pay and benefits of the wider workforce and the comparator group.
- Determine incentive outcomes for 2021.
- Set incentive scheme targets for 2022, having reflected on the continuing impact of the pandemic.
- Assess whether our engagement plan with employees and other stakeholders on remuneration remains effective.
- Monitor alignment of Executive remuneration with wider workforce pay policies and incentives.
- Continue to monitor and support the development of reward strategy across the Group ensuring it is competitive and fair.



Dear shareholder

I am writing to you as the Chair of Marshall's Remuneration Committee and am pleased to set out in this report how the Committee has carried out its objectives and responsibilities during 2020.

This report is divided into two sections: firstly, this letter and at a glance "summary" of our Policy and activities; and secondly, our Annual Remuneration Report showing how our Policy was applied during the year and outcomes for our Executives and how it is proposed to be implemented for 2021.

2020 was the first year of operation of our new Remuneration Policy which was approved by a substantial majority of 93 per cent of shareholders at the May 2020 AGM. The Remuneration Committee continues to believe that the Remuneration Policy approved at the 2020 AGM is the best structure to provide strong alignment with shareholders' interests and therefore is not planning any changes to its operation. It should be noted that the 2020 Remuneration Policy was in most respects a continuation of the 2017 Policy.

Business performance and outcomes for 2020

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

2020 performance was overshadowed by the COVID-19 pandemic and as a result the Company did not achieve the performance conditions set at the beginning of the year. This has resulted in no amounts being earned under the MIP in respect of 2020.

Group revenue was £469.5 million (2019: £541.8 million), reported EPS before operational restructuring costs and asset impairments, was 8.60 pence (2019: 29.36 pence), and reported return on capital employed was 8.2 per cent (2019: 21.4 per cent).

MIP A outcomes for 2020

As a result of Company performance during the year the performance conditions for MIP A were not achieved and as such no contribution to MIP A will be made in respect of 2020.

MIP B awards allocated in respect of 2020

The performance conditions that determine the allocation of MIP B awards are the same as the performance conditions for MIP A. As a result of Company performance, similar to MIP A, there will be no allocation of awards under MIP B in respect of 2020.

2020 MIP performance conditions

The table below shows how the Group performed against targets for the MIP in 2020. Performance measures and targets are linked to the key strategic objectives highlighted on pages 22 and 23 of the Strategic Report.

MIP Element A: 0 per cent of maximum (2019: 99.6 per cent of maximum) was awarded to the CEO and Group FD.

MIP Element B: 0 per cent of maximum (2019: 99.6 per cent of maximum) was awarded to the CEO and Group FD.

	Threshold (0% payable)	Maximum (100% payable)	Actual (2020)	Weighting outcome (% total award)	CEO £'000	Group FD £'000
EPS (75% of maximum)	29.03p	32.29p	8.60p	0%	£940,305 max £0 actual	£581,167 max £0 actual
Operating cash flow ("OCF") to EBITDA ratio (25% of maximum)	£80.2m	£97.3m	£28.4m	0%	£313,435 max £0 actual	£193,722 max £0 actual
Non-financial targets (customer service/health and safety)				No deduction	No deduction	No deduction

Performance conditions were set at the beginning of 2020 and the Committee took account of both internal budgets and external factors such as the market consensus of investors for the full year 2020. No discretion was exercised in determining bonus outcomes and no adjustments were made to the targets to reflect the impact of COVID-19 or any other factors affecting the Company during the year.

Definitions

Other than in respect of IFRS 16, the EPS and OCF ratio for 2020 were measured using IFRSs based on the audited results of the Group and subject to the discretion of the Committee with regard to one-off items. The Committee determined that pre-IFRS 16 targets were to be used in 2020.

EPS

EPS relates to our strategic objective to grow profits. Reported EPS, before operational restructuring costs and asset impairments, was 8.60 pence (2019: 29.36 pence) in 2020.

OCF/EBITDA

OCF/EBITDA ratio relates to our strategic objective to convert earnings into cash flow and to use cash responsibly. OCF before operational restructuring costs paid was £28.4 million in 2020.



Remuneration Committee Report continued

Non-financial targets

Our customers are at the heart of our business model, and our measurement of customer service uses factors such as product availability, on-time delivery performance and administrative and delivery accuracy to assess performance. The Group's average customer service performance is assessed monthly. Due to the challenges caused by COVID-19 and the longer lead times experienced by the whole construction sector, the Group's average customer service score was 94 per cent during 2020. This compared with the target score of 95 per cent. The Group continued its excellent performances against its stated health and safety objective of keeping days lost to accidents to a minimum, by reference to the 2017 rate. Days lost to accidents year on year actually reduced by a further 12.2 per cent. As no bonus was earned in 2020 no adjustment was necessary.

COVID-19 remuneration decisions

The COVID-19 pandemic has created a seismic shift in the way that all businesses must operate, and in particular in the way that we must work, including where we work, how we work and when we work. At Marshall's we have been committed to ensuring that our customers continue to be able to access our products safely during this turbulent time, whilst also supporting our employees by providing the guidance and resources to enable them to safely and efficiently operate the business. Further details on our response to COVID-19 are set out below and on pages 56 and 57.

The following table summarises the key components of Executive remuneration and the decisions made by the Committee to take into account COVID-19:

Element of remuneration	Committee decision	Rationale
2020 Executive Director salaries	Between 1 April 2020 and 31 May 2020 the salary of the Executive Directors was reduced by 20 per cent, including pension contributions and salary supplement. Other members of senior management also voluntarily agreed similar reductions. The CEO's employer pension contribution was reduced by 2.5% to 17.5% of salary in 2020.	The Executive Directors felt this was appropriate both to reflect the fact that a number of employees were furloughed and received job retention scheme money and to preserve cash during a period when trading was materially impacted. The salaries of the Executive Directors were restored to their normal levels once the initial lockdown was complete and the Company had a better understanding of the potential impact of COVID-19.
2020 Non-Executive Director fees	Between 1 April 2020 and 31 May 2020 the annual fees of the Chair and Non-Executive Directors were reduced by 20 per cent.	The basis of the reduction for the Non-Executive Director fees was the same as set out above for the Executive Directors.
2020 MIP operation	The Committee determined that there should be no contribution earned in respect of the 2020 financial year due to the fact that the Company failed to achieve the performance conditions set at the beginning of the year prior to the impact of COVID-19.	The Committee determined that it would make no adjustment to the performance conditions to take into account COVID-19 because: • this was consistent with the operation of bonus arrangements throughout the Company; • this approach ensured alignment between the Executive Directors and the Company's stakeholders; • this approach aligned with our decision not to pay the final dividend for 2019 and to reduce dividend payments in respect of 2020; and • of the wider societal impact of COVID-19.
2020 MIP B vesting	The MIP Element B awards which were awarded in 2017 vested in full. The underpin condition applying to 50 per cent of the award was 14.32 pence. The actual average EPS over the period was 21.42 pence.	The Committee did not exercise any discretion to depart from the formulaic outcomes on vesting as the performance conditions for Element B were satisfied on grant and the underpin met over the deferral period; the Committee therefore took the view that the vesting was in line with the business, individual and wider Company factors over the relevant period.
2021 Executive Director salaries	The Company has taken the decision to delay the next round of pay awards (which would have taken place in January) to later in the year. The employer pension contribution for the CEO will be reduced by 2.5% to 15% of salary. Pension Contributions for both the CEO and Group FD will be aligned with the majority workforce contribution by the end of 2022.	The Company did not feel it was appropriate to make any adjustments at the present time given the ongoing impact of COVID-19.



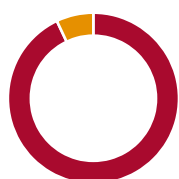
Element of remuneration	Committee decision	Rationale
2021 Non-Executive Director fees	The Company has taken the decision to delay the next round of pay awards until later in the year.	The Company did not feel it was appropriate to make any adjustments at the present time given the ongoing impact of COVID-19.
2021 MIP operation	The Committee is intending to operate the 2021 MIP on the same basis as historically, namely: the maximum opportunities for the Executive Directors will remain the same; the performance conditions will remain the same; and the performance targets will continue to be based on internal Company budgets and external consensus forecasts.	The Committee does not intend to change the operation of the MIP in 2021 and is proposing to set stretching but achievable targets in line with its normal policy. The Committee does not believe that it is appropriate to reduce the maximum award level given that the challenge in the targets remain the same for 2021 as they did in 2020 and 2019.
"Windfall gains"	Equity awards (under MIP B) were granted in March 2020 in respect of MIP performance in 2019. The Committee will not be granting equity awards (under MIP B) to the Executive Directors during 2021 as a result of the 2020 MIP performance conditions not being achieved.	At the time of the 2020 awards the Committee did not consider windfall gains. For 2021 there will be no need to consider the share price on grant and whether it would lead to windfall gains as no awards will be granted. When the 2020 awards vest the Committee will consider the actual share price at that time compared to historic levels before determining whether any adjustments to the grant size or protection against windfall gains is required.

Wider workforce considerations

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

Shareholders

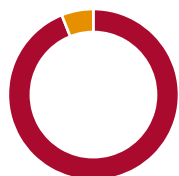
We are pleased by the continued support shown by our shareholders through the vote on the Annual Remuneration Report and the new Remuneration Policy at the 2020 AGM:



Remuneration Policy

- For – 93.0%
- Against – 7.0%
- Withheld – n/a

Votes cast: 154,260,365



Remuneration Report

- For – 94.2%
- Against – 5.8%
- Withheld – n/a

Votes cast: 151,049,910

As part of our annual shareholder engagement programme, the Chair and I met with key shareholders in November 2020.

In response to shareholder interest we are planning to work with management in 2021 to enhance our ESG scorecard, adding to the health and safety and customer service measures that we apply to our incentives.

In conclusion

In spite of the impact of the COVID-19 pandemic on performance, the Committee continues to believe the Remuneration Policy adopted by shareholders in 2020 is the right one for the business. Notwithstanding the outcomes on incentive arrangements, the Executive Directors, the senior management team and the wider workforce have made exceptional contributions and shown great resilience to support the business through a challenging year.

I would like to thank our shareholders for their continued support during the year. I will be available at the Company's 2021 AGM to answer any questions in relation to this Remuneration Report.

Janet Ashdown

Chair of the Remuneration Committee
11 March 2021

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



Remuneration Committee Report continued

At a glance

Link to Company strategy

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

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

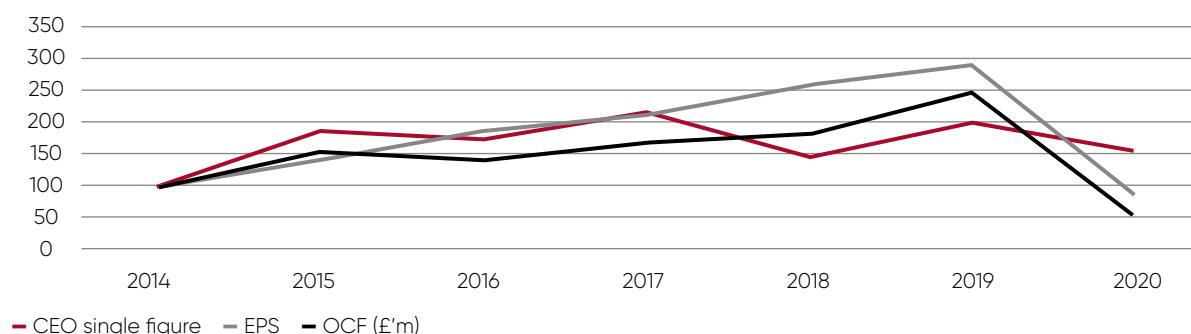
The use of EPS under the MIP as the main performance condition ensures that the Executive Directors are focused on driving profitable growth in accordance with the Company strategy. The OCF to EBITDA ratio ensures that this growth in profit is not at the expense of its quality and sustainability. The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

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

2020 remuneration outcomes

Long-term performance

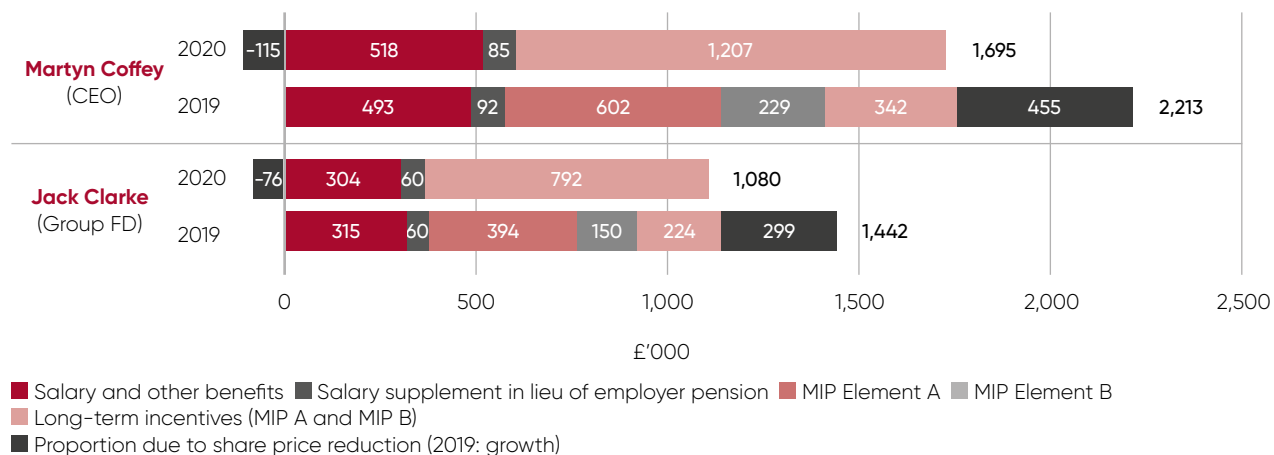
The following chart shows the single figure of remuneration for the CEO over the last five financial years compared to the Company's EPS and OCF over the same period. The EPS and OCF for 2020 have been disclosed on a pre-IFRS 16 basis in order to be consistent with prior periods. The chart demonstrates the correlation between Company performance demonstrated by these measures and the remuneration paid to the CEO.



2020 single figure

The following charts summarise the single figure of remuneration for 2020 in comparison with 2019 and with the minimum, target and maximum remuneration scenarios from the 2020 Remuneration Policy to show how the actual remuneration compares to the Policy remuneration. For those elements of remuneration provided in shares in 2019 and 2020, we have separated out their original value on grant and the additional value generated due to share price growth over the vesting period. It is the Committee's view that one of the key objectives of equity-based remuneration is to align Executives' interests and those of shareholders. With such a high proportion of MIP awards expressed in or linked to shares, the impact of share price movement on overall Executive reward can be significant.

Explanatory notes on the single figure can be found in the Annual Remuneration Report (page 82).

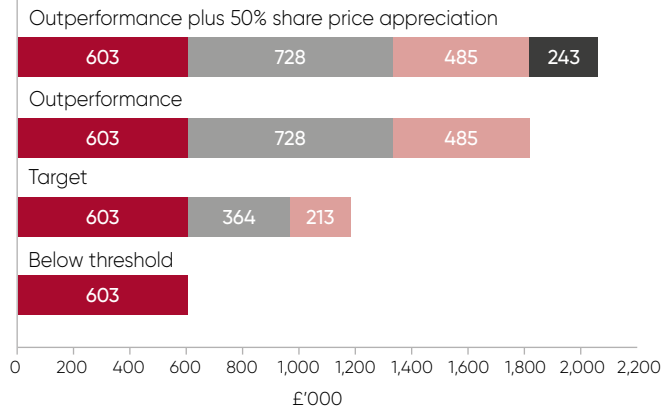




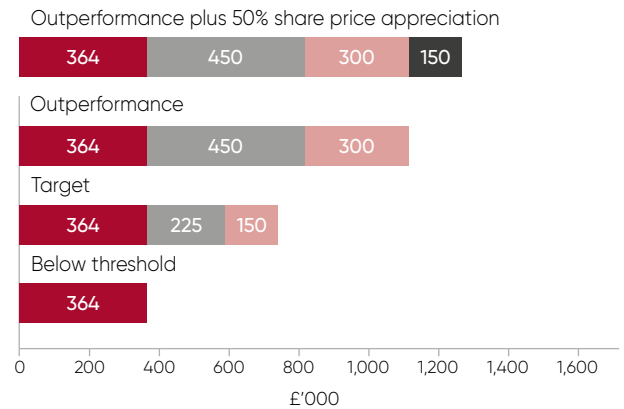
2020 remuneration outcomes continued

Total remuneration opportunity under the 2020 Policy for each of the Executive Directors at three different levels of performance is shown below:

Martyn Coffey (CEO)



Jack Clarke (Group Finance Director)



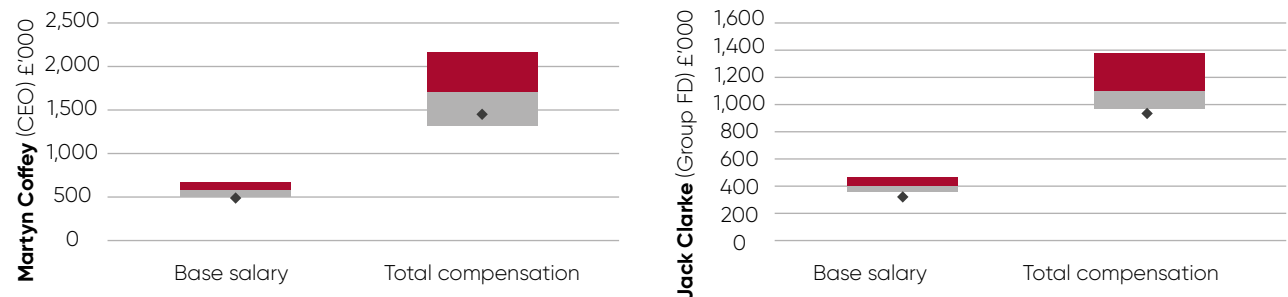
■ Salary, benefits and pension contribution ■ MIP Element A ■ MIP Element B ■ Proportion due to share price growth

Notes:

- Base salary, benefits and pension information is taken from the single figure remuneration table in the 2020 Annual Remuneration Report. The benefits value reflects a fully expensed company car, medical insurance and any other taxable benefits, and pension includes the level of salary supplement paid instead of contractual employer pension contributions.
- At target, 50 per cent of the annual award under the MIP pays out.
- The minimum assumes a performance that fails to meet the threshold for Element A and Element B so is the level below which no variable pay under the MIP is earned.
- The maximum represents the full 250 per cent of salary potential under the MIP.
- The maximum +50 per cent share price increase represents the full 250 per cent of salary potential under the MIP, as well as the maximum value assuming a 50 per cent increase in share price for MIP B awards.

Comparison to peers

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

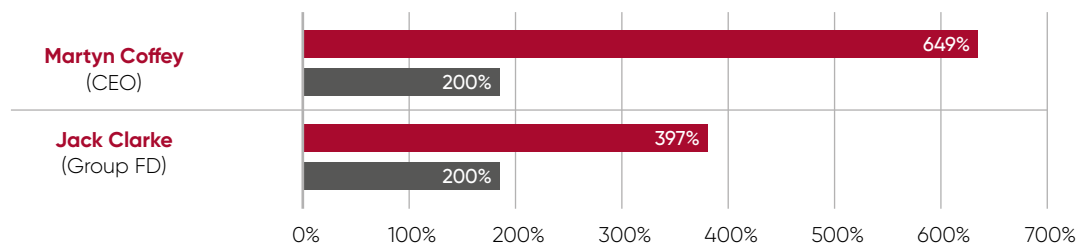


■ Lower quartile to median ■ Median to upper quartile ◆ Martyn Coffey (CEO)/Jack Clarke (Group FD)

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

Shareholding requirement

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



■ Actual shareholding ■ Shareholding requirement

Under the 2020 Policy, the full shareholding requirement of 200 per cent of salary will continue to apply for one-year post cessation of employment and half of the requirement (being 100 per cent) for a further year.

Any vested MIP shares that remain subject to the holding requirement are held in an EBT until the holding period is complete.



At a glance continued

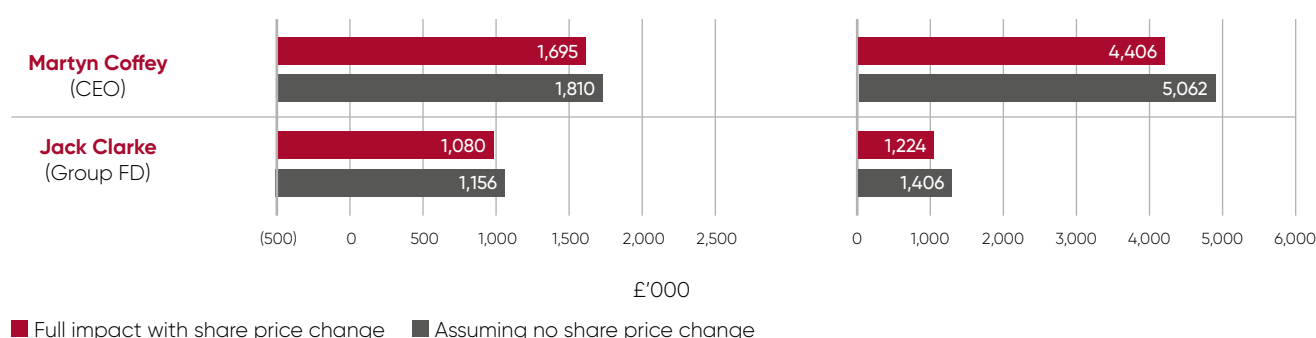
2020 remuneration outcomes continued

Impact of share price change

It is the Committee's view that it is important when considering the remuneration paid in the year under the single figure to take a holistic view of the Director's total reward linked to the performance of the Company. In the Committee's opinion, the impact on the total reward of the Director is more important than the single figure in any one year. This approach encourages Directors to take a long-term view of the sustainable performance of the Company, which is critical in a cyclical business. The ability for the Directors to gain and lose, dependent on the share price performance of the Company, at a level which is material to their total remuneration is a key facet of the Company's Remuneration Policy. The Committee has discretion to adjust remuneration as a result of share price appreciation or depreciation, but this has not been required given the 2020 outcomes. The following charts set out the single figure for 2020 and the impact the movement in share price has had on the value, and the share interests held by the Executive Directors at the end of the financial year and the impact on the value of these share interests taking into consideration the share price movement over the year.

Impact of share price change on single figure remuneration

Impact of share price change on value of shares held



Implementation of the Policy in 2020 and 2021 for Executive Directors

The table below sets out the following information:

- a summary of the Policy approved at the 2020 AGM. The full policy can be found on pages 64 to 76 of the Company's 2019 Annual Report and Accounts (www.marshalls.co.uk/investor/results-reports-and-presentations);
- how the Company implemented the 2020 Remuneration Policy in 2020; and
- how the Company proposes to implement the 2020 Remuneration Policy in 2021.

Element of pay	Summary of Policy	How we implemented the Policy in 2020	How we will implement the Policy in 2021
Salary	An Executive Director's base salary is set on appointment and reviewed annually or when there is a change in position or responsibility. When determining an appropriate level of salary, the Committee considers: • general salary rises for employees; • remuneration practices within the Group; • any change in scope, role and responsibilities; • the general performance of the Group; • the experience of the relevant Director; • the economic environment; and • whether a benchmarking exercise is appropriate (using salaries within the ranges paid by the companies in the comparator groups for remuneration benchmarking).	Executive Director salaries for 2020 were as follows: • CEO – £501,000; and • Group FD – £310,000. Salary increases were 9% and 2.7% for the CEO and Group FD respectively in 2020; increases for UK employees generally were 2.7%.	A decision has been taken to delay any decision on salary changes. Until any such decision is taken salaries will remain unchanged from 2020: • CEO – £501,000 (0% increase); and • Group FD – £310,000 (0% increase).



Element of pay	Summary of Policy	How we implemented the Policy in 2020	How we will implement the Policy in 2021
Benefits and pension	Benefits include car or car allowance, health insurance, life assurance and membership of the Group's employee share plans. Executive Directors are entitled to join the defined contribution scheme operated by Marshalls. The Company contributes at an agreed percentage of basic salary. Executive Directors may take a pension allowance in place of the Company's contribution to the scheme. Pension allowances are excluded for the purposes of calculating any other element of remuneration based on a percentage of salary. The maximum Company contribution is 20% of salary; however, this will be reduced to align with the majority of employees (currently 5%) by the end of 2022. For any new Executive Director appointments, the maximum employer pension contribution or allowance will be in line with the majority contribution to UK employees.	The CEO's employer pension contribution was reduced by 2.5% to 17.5% of salary. The Group FD's employer pension contribution was 20% of salary.	The CEO's employer pension contribution will be reduced by 2.5% to 15% of salary. A final reduction in 2022 will be implemented to align with the majority workforce contribution (currently 5%). The Group FD's pension contribution will be aligned with the majority workforce contribution by the end of 2022.
MIP Element A	Annual performance conditions and targets are set at the beginning of the Plan year by reference to financial, strategic and operational objectives by the Remuneration Committee. Upon assessment of performance by the Committee, a contribution will be made by the Company into the participant's Plan Account and 50% of the cumulative balance will be paid in cash. Any remaining balance will be converted into shares or share-linked units. 100% of the balance in the final year of the Plan will normally be settled in the form of shares transferred or allotted to the participant. During the Plan period, 50% of the retained balance is at risk of forfeiture based on a minimum performance measure determined annually by the Committee. The Committee may award dividend equivalents on shares or share-linked units held under the Plan to plan participants to the extent that they vest.	Maximum opportunity of 150% of salary. Outcome level in 2020 was as follows: • CEO – 0% of base salary; and • Group FD – 0% of base salary. The performance measures were: • EPS (75%); and • ratio of OCF to EBITDA (25%). Non-financial performance conditions to reflect our focus on brand, customers and employees: • customer service (must remain at or above 95%); and • health and safety incidence: the rate of accidents must not fall below an agreed threshold, benchmarked by reference to the "base" year (2017). If they are not met, there is a reduction of award value earned by the satisfaction of the financial performance conditions by 10% in relation to each of these additional conditions. See page 80 for details of the targets, their level of satisfaction and the corresponding bonus earned.	Maximum opportunity of 150% of salary with target set at 50% of opportunity and threshold at 0% of opportunity. The performance measures are: • EPS (75%); and • ratio of OCF to EBITDA (25%). Non-financial performance conditions to reflect our focus on brand, customers and employees will continue to apply: • customer service (must remain at or above 95%); and • health and safety incidence: the rate of accidents must not fall below an agreed threshold, benchmarked by reference to the "base" year. If they are not met, there is a reduction of award value earned by 10% in relation to each of these additional conditions.



At a glance continued

Implementation of the Policy in 2020 and 2021 for Executive Directors continued

Element of pay	Summary of Policy	How we implemented the Policy in 2020	How we will implement the Policy in 2021
MIP Element B	Annual performance conditions and targets are set by reference to financial, strategic and operational objectives by the Remuneration Committee. Awards are granted retrospectively in shares based on the achievement of performance targets for the relevant year. Awards vest (subject to continued employment) 3 years from grant. Sale restrictions apply to awards that have vested: normally vested awards may not be sold for a further two years after vesting or post cessation of employment. There is a financial underpin which, if not achieved over the three-year vesting period, results in the loss of up to 50% of unvested awards.	Maximum opportunity of 100% of salary. Contribution level for 2020 was as follows: • CEO – 0% of base salary; and • Group FD – 0% of base salary. The performance measures were the same as for Element A.	Maximum opportunity of 100% of salary with target set at 50% of opportunity and threshold at 0% of opportunity. The performance measures are the same as for Element A.
Minimum shareholding requirement	Minimum shareholding requirement of 200% of salary. Executive Directors are required to retain 50% of the post-tax number of vested shares from the Company incentive plans until the minimum shareholding requirement is met and maintained. Adherence to these guidelines is a condition of continued participation in the incentive arrangements. Post-cessation holding period of 200% of salary for the first year and 100% of salary for a further year. Where their actual shareholding at departure is below the minimum shareholding requirement, the Executive Director's actual shareholding is required to be retained on the same terms and for the same periods.		

Implementation of Non-Executive Directors fees in 2020 and 2021

In line with the wider workforce and Executive Directors, the Company has taken the decision to delay the next round of pay awards (which would have taken place in January) to later in the year. The table below reflects the 0 per cent increase.

Director	1 January 2021 £'000	1 January 2020 £'000	Percentage increase
Vanda Murray (Chair)	175.0	175.0	—%
Janet Ashdown (SID, Chair of Remuneration Committee)	64.8	64.8	—%
Graham Prothero (Chair of Audit Committee)	57.6	57.6	—%
Tim Pile	49.1	49.1	—%
Angela Bromfield	49.1	49.1	—%



Annual Remuneration Report

This report covers the reporting period from 1 January 2020 to 31 December 2020 and explains how the Remuneration Policy has been implemented. Comparative figures for the 2019 financial year have also been provided.

Single total figure of remuneration in 2020 – Executive Directors (audited)

	Fixed £'000						Performance related £'000													
	Salary		Other benefits		Salary supplement in lieu of pension		Annual bonus				Long-term incentives				Total		Total fixed		Total variable	
							MIP Element A		MIP Element B		MIP Element A and B									
							2020 £'000	2019 £'000	2020 £'000	2019 £'000	2020 £'000	2019 £'000	2020 £'000	2019 £'000						
	2020 £'000	2019 £'000	2020 £'000	2019 £'000	2020 £'000	2019 £'000	2020 £'000	2019 £'000	2020 £'000	2019 £'000	2020 £'000	2019 £'000	2020 £'000	2019 £'000	2020 £'000	2019 £'000				
Martyn Coffey	485	460	33	33	85	92	-	810	-	229	1,092	589	1,695	2,213	603	585	1,092	1,628		
Jack Clarke	300	302	4	13	60	60	-	531	-	150	716	386	1,080	1,442	364	375	716	1,067		
Total	785	762	37	46	145	152	-	1,341	-	379	1,808	975	2,775	3,655	967	960	1,808	2,695		
	Note a		Note b		Note c		Note c		Note d											

Notes:

- Benefits are car/car allowance, fuel/fuel allowance, private medical insurance and travel and accommodation expenses.
- The Executive Directors each received a salary supplement in lieu of contributions into the Group's pension scheme throughout the year. No Director had any entitlement under the defined benefit section of the pension scheme and no additional benefit was received as a result of early retirement.
- No MIP awards for 2020. The annual bonus column shows 50 per cent of the total bonus contribution earned under the MIP Element A in respect of 2019 performance, and 50 per cent of the total value of Element B shares awarded which are deferred but are not subject to further performance conditions (other than continued employment). The remaining 50 per cent in respect of 2019 Element A is deferred into shares in the MIP account which are subject to performance and employment-based forfeiture for a further holding period. The remaining 50 per cent of 2019 Element B shares is subject to underpins and employment-based forfeiture for a 3-year deferred period. These deferred elements will be disclosed in the long-term incentives column when the conditions are satisfied. The deferred shares in relation to both Element A and Element B may change in value during the holding period depending on Marshall's share price.
- The long-term incentives column shows the aggregate value of sums released from MIP account balances from earlier years that are no longer subject to deferral and forfeiture risk. The reduction in the MIP account balances because of share price reduction is £115,000 for Martin Coffey and £76,000 for Jack Clarke.

Setting pay in context

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

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

- investment – the Company's strategy is to increase capital investment to take advantage of market demand and in order to ensure that the business grows in a sustainable manner with a corresponding long-term benefit for all stakeholders; and
- tax – the Company is a UK taxpayer and feels that it is beneficial to demonstrate to all its stakeholders its total UK tax contribution. The most significant elements of the Company's UK tax contribution are VAT, employer's NI, corporation tax, fuel duty and aggregates levy. As profitability increases, corporation tax will also increase. In 2020 the Group was re-accredited with the Fair Tax Mark.

Relative importance of spend on pay (percentage change)

Staff pay
(£'m)

+1.5%

Distributions to
shareholders (£'m)

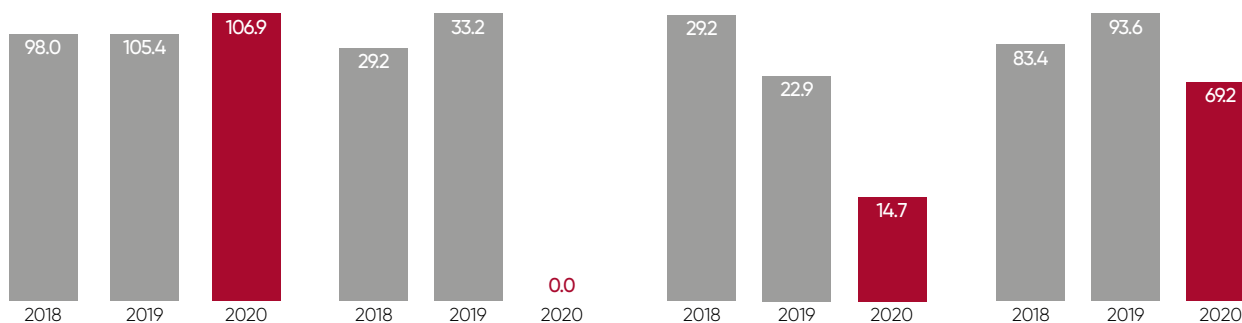
-100%

Capital investment
(£'m)

-35.6%

Tax
(£'m)

-26.1%





Governance

Remuneration Committee Report continued

Annual Remuneration Report continued

Outcomes of incentive schemes in 2020 (audited)

See page 71 for details of the satisfaction of the performance conditions under the MIP for 2020.

MIP awards 2020

Element A (historic plan account)

Plan accounts	Martyn Coffey	Jack Clarke
Opening balance (number of shares) (Note a)	98,546	64,644
Value of closing balance (Note c)	£714,189	£468,491
Number of shares represented by closing balance (Note c)	98,546	64,644

2020 was the final year of the historical MIP and therefore 100 per cent of the closing balance vested. The value of the closing balance is included in the long-term incentives column of the single total figure of remuneration table.

A new MIP started in 2020. The opening balance is therefore zero. As performance conditions were not met in 2020 there will be no contribution to the plan account in respect of 2020 and therefore the closing balance will be zero.

Element A (new plan account)

Plan accounts	Martyn Coffey	Jack Clarke
Opening balance (number of shares)	–	–
2020 contribution (% of salary earned)	–%	–%
Value	–	–
2020 element released (Note b)	–	–
Closing balance (deferred into shares)	–	–
Number of shares represented by closing balance (Note c)	–	–

Element B (2018 award in respect of 2017 performance)

The EPS forfeiture threshold applicable to the 2018 award was 14.32. The actual average EPS performance was 21.42 and therefore the forfeiture threshold was met and 100% of the award will vest.

	Martyn Coffey	Jack Clarke
Number of shares awarded	97,788	64,146
Value of shares vesting	£695,791	£456,418
Value of dividends accrued over vesting period	£30,240	£19,837
Value included in single figure table (Note e)	£378,135	£248,046

Element B (2021 award in respect of 2020 performance)

	Martyn Coffey	Jack Clarke
Number of shares awarded	–	–
Percentage of salary	–%	–%
Value	–	–
EPS forfeiture threshold (Note d)	n/a	n/a

Notes:

- 50 per cent of the earned Element A award is released to the participant as annual bonus; the remaining 50 per cent is deferred into the participant's MIP account and converted into shares. The previously deferred proportion of the 2019 Element A award was converted into shares by reference to the mid-market average value for the 30-day period ending on 31 December 2019. Dividends paid during the year are also added to the carried-forward plan account. The table above shows the resulting closing balance value calculated by reference to the mid-market average value for the 30-day period ended 31 December 2020.
- If Element A had been earned for 2020 it would be added to the individual's plan account, and 50 per cent of the resulting balance would be released to the participant as an annual bonus; the remaining 50 per cent would be deferred into the participant's MIP account and converted into shares. The deferral is repeated in each subsequent year up to the final year. In the final year, subject to any forfeiture provisions, 100 per cent of any balance in the MIP account is released.
- 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 2020 (724.72 pence).
- If the actual EPS falls below the forfeiture threshold over the three 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 two 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 two years from the date of leaving.
- In accordance with the regulations, 50% of the Element B award is included in the single figure table on grant. The remaining 50% plus any dividends accrued are included on vesting.

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 2020. The Chair's fees are set by the Committee; other Non-Executive Directors' fees are set by the Board as a whole. The Non-Executive Directors reclaim travel and accommodation expenses incurred in the performance of their duties, and where this is a taxable benefit it is shown below as a grossed-up taxable amount.



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

	Board fee £'000		Committee fees £'000		Expenses £'000		Total £'000	
	2020	2019	2020	2019	2020	2019	2020	2019
Vanda Murray Chair and Chair of Nomination Committee	169	170	—	—	8	6	177	176
Janet Ashdown Senior Independent Director, Chair of Remuneration Committee and member of Audit and Nomination Committees	49	48	17	15	—	1	66	64
Tim Pile Member of Audit, Remuneration and Nomination Committees	47	48	—	—	1	2	48	50
Graham Prothero Chair of Audit Committee and member of Remuneration and Nomination Committees	47	48	8	8	—	2	55	58
Angela Bromfield Member of Audit, Remuneration and Nomination Committees (from 1 October 2019)	47	12	—	—	—	—	47	12
Total	359	326	25	23	9	11	393	360

Governance

Directors' shareholdings and share interests

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

- the number of shares the Director holds unconditionally; and
- the number of shares subject to unvested incentive awards as at 31 December 2020.

Director	Shareholding requirement (Note a)		Beneficially owned (Note b)	Shares that will vest following 2020 results (Note c)	Deferred shares (Note d)	Deferred and contingent share interests (Note e)	Total interests in shares (including contingent interests)
	% of salary	Number of shares required					
Executive							
Martyn Coffey	200	129,533	486,580	102,038	76,752	175,298	840,668
Jack Clarke	200	82,821	96,505	66,934	50,347	114,991	328,777
Non-Executive							
Vanda Murray	—	—	22,000	—	—	—	22,000
Janet Ashdown	—	—	11,210	—	—	—	11,210
Tim Pile	—	—	43,140	—	—	—	43,140
Graham Prothero	—	—	2,417	—	—	—	2,417
Angela Bromfield	—	—	3,000	—	—	—	3,000

Notes:

- The closing price on 31 December 2020 of 748.5 pence per share has been used to measure the number of shares required.
- As at the date of this report the number of shares beneficially owned by Martyn Coffey was 486,644 and by Jack Clarke was 96,569. Changes were due to share purchases under the Share Purchase Plan and changes to their "persons closely associated".
- This comprises Element B awards granted in March 2018 (based on 2017 performance) that will vest three years from grant (i.e. March 2021) before deduction of any tax and NIC. This must be held for a minimum of two further years.
- This column includes the 50 per cent proportion of share interests awarded 2018 and 2019 under Element B of the MIP in the form of nil-cost options or conditional shares that may be exercised after the three-year deferral period but where vesting is only dependent on continuing employment throughout the three-year deferral period with no other performance conditions. No awards were made under Element B in 2020.
- This column comprises share interests awarded under the MIP (Element A deferred shares and Element B deferred shares) that remain subject to a financial performance condition as well as to continued employment over the relevant deferral period. 50 per cent of Element A awards and 100 per cent of Element B awards shown in this column may be forfeited if the financial condition is not satisfied.
- 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 2020 (724.72 pence).
- The table above includes the interests of "persons closely associated" as defined under the Financial Services and Markets Act (Market Abuse) Regulations 2016.

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

**Remuneration Committee Report** continued**Annual Remuneration Report** continued**Statement of implementation of Remuneration Policy in the following financial year (2021)**

See pages 76 to 78.

Payments to past Directors/payments for loss of office

There were no payments to past Directors.

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

Annual Remuneration Report

The following table sets out the part of the report where the relevant information can be found:

Element	Reference
Payment for loss of office or payments to past Directors	Page 82
Performance graph and table	Page 74
Percentage change in remuneration of the Director undertaking the role of CEO	Page 85
Relative importance of pay	Page 79
Statement of implementation of the Policy in the following financial year	Pages 76 to 78
Consideration by the Directors of matters relating to Directors' remuneration	Pages 71 to 73
Statement of voting at General Meeting	Page 93

Fairness, diversity and wider workforce considerations**Introduction**

This section of the Remuneration Report deals with the following:

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

Process

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

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

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

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

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

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



Process continued

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

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

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

Progress during 2020

During 2020, the Committee conducted a full audit of wider workforce pay and conditions. The Group has a clear strategy in place to develop this process and rectify any disparities revealed as a result of the review over the coming years.

Overview of findings

The key findings of the Committee's review for 2020 were as follows:

- there was support for the planned extension of the Company's wellbeing strategy and support services to employees;
- the development of competency-driven pay models was recognised as a fair and transparent way of managing pay for skills and capability – these are being rolled out across various parts of the business;
- benefits remain competitive, but more is needed to ensure full awareness across the employee populations of exactly what is open to them; and
- participation in certain benefits is becoming more standardised against the size and scale of an individual's role.

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

The Company expects to develop its engagement and communication channels in relation to remuneration during 2021, and to report in more detail to shareholders on how this has been achieved.

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

Level (number)	Participation in Element A of the MIP (percentage range)	Participation in Element B of the MIP (percentage range)	Participation in other bonus or commission plans	Participation in all-employee equity plans (Sharesave/SPP)
Executive Directors (2)	150% of salary	100% of salary	X	✓
Executive Committee (7)	55% to 85% of salary	35% to 80% of salary	X	✓
Senior management (10)	45% of salary	45% of salary	X	✓
Employees in BSP (54)			15% to 55% of salary +5% bonus shares	✓
Employees in other job-related bonus or commission schemes (559)			Sales bonuses	✓

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

**Remuneration Committee Report** continued**Fairness, diversity and wider workforce considerations** continued**Widening employee share ownership**

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

Bonus Share Plan ("BSP")

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

Sharesave Scheme/Share Purchase Plan

The Marshall's Sharesave Scheme was introduced in 2015 to encourage wider ownership of Marshall's plc shares across the entire workforce, so that the employees are able to participate in the Group's success in a way that aligns their interests with those of shareholders. The Share Purchase Plan is an "evergreen" scheme under which employees may purchase shares in the market on a monthly basis out of gross salary.

The Group intends to launch another three-year SAYE scheme for employees in 2021.

Real Living Wage employer

Marshall's is proud to be a Real Living Wage employer, underscoring its commitment to its employees. Marshall's achieved Living Wage accreditation in 2018 and has maintained its status throughout 2020.

Pay comparisons**CEO ratio**

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

Financial year	CEO pay ratio			CEO salary £'000	Employee salary			CEO total pay and benefits £'000	Employee total pay and benefits		
	25th percentile	50th percentile	75th percentile		25th percentile £'000	50th percentile £'000	75th percentile £'000		25th percentile £'000	50th percentile £'000	75th percentile £'000
2020	70.6:1	46.3:1	38.2:1	485	23	35	42	1,695	24	37	44
2019	77.6:1	60.6:1	51.0:1	460							
2018	58.1:1	44.1:1	37.1:1	445							

The 25th, 50th and 75th percentiles have been calculated using actual pay for the year ended 31 December 2020, increased where appropriate to give full time equivalent remuneration for part time workers or those working only part of the year.

To give context to this ratio, we have included below a chart tracking CEO pay and average employee pay since Martyn Coffey's appointment alongside Marshall's TSR performance over the same period. The Remuneration Committee has always been committed to ensuring that CEO reward is commensurate with performance. The chart shows a clear alignment between shareholder returns and CEO single figure pay.

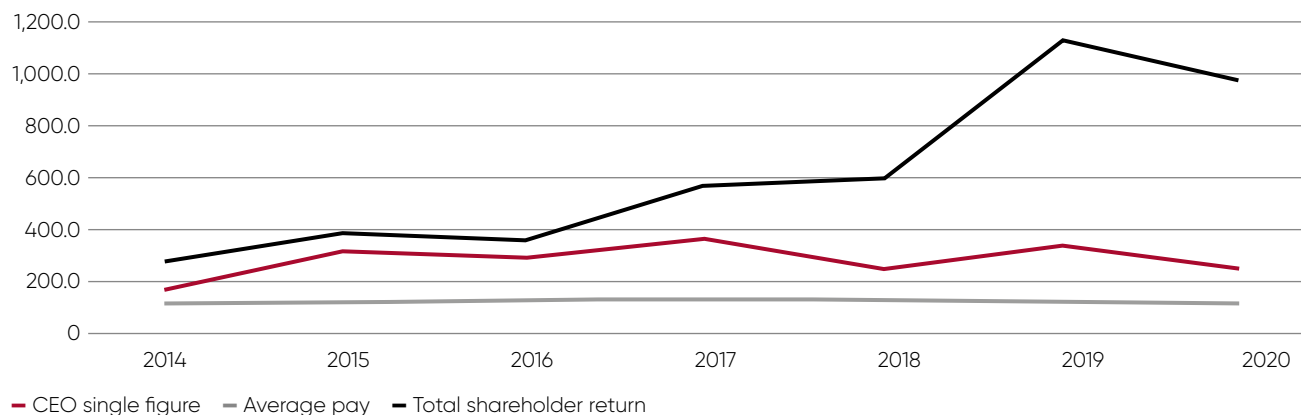
Shareholders expect the CEO to have a significant proportion of pay based on performance and paid in shares. It is this element of the package which provides the volatility in CEO remuneration and the variations in the ratio. The Committee is satisfied that the underlying picture does not show a divergence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

	2014	2015	2016	2017	2018	2019	2020
Ratio of single figure total remuneration to average employee	25.2x	50.1x	37.5x	48.9x	31.9x	41.2x	35.9x

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



CEO/average pay against TSR



Percentage change in Directors' remuneration

In accordance with The Companies (Directors' Remuneration Policy and Directors' Remuneration Report) Regulations 2019, the table below shows the percentage change in Executive Director and Non-Executive Director total remuneration compared to the change for the average of UK-based employees of the Group excluding Executive Directors and Non-Executive Directors.

	Salary/fees		Taxable benefits		Short-term variable pay*	
	2020	2019	2020	2019	2020	2019
Martyn Coffey (Chief Executive Officer)	5.4%	3.3%	-%	3.1%	-100.0%	45.3%
Jack Clarke (Group Finance Director)	-0.7%	3.3%	n/a	n/a	n/a	n/a
Vanda Murray OBE (Chair)	-0.7%	3.3%	n/a	n/a	n/a	n/a
Janet Ashdown (Non-Executive Director)	-0.7%	3.3%	n/a	n/a	n/a	n/a
Tim Pile (Non-Executive Director)	-0.7%	3.3%	n/a	n/a	n/a	n/a
Graham Prothero (Non-Executive Director)	-0.7%	3.3%	n/a	n/a	n/a	n/a
Angela Bromfield (Non-Executive Director)	-0.7%	n/a	n/a	n/a	n/a	n/a
Employees	5.4%	1.6%	-8.8%	23.8%	-85.1%	22.2%

Notes:

- a) Martyn Coffey's salary was increased on 1 January 2020 by 9 per cent in line with the new Remuneration Policy for 2020 as described in the 2019 Remuneration Committee Report. Please see Note f below for further detail.
- b) The bonus is the non-deferred amount earned for the relevant year taken from the single figure remuneration table on page 79.
- c) A 2.7 per cent increase was awarded to the workforce on 1 January 2020. The table above shows that the average salary increase per employee for 2020 was slightly higher. This was due to changes in the workforce following a restructure in the first half of the year.
- d) The table above shows that the average bonus per employee decreased by 85.1 per cent. This was caused by the changes in market conditions created by the COVID-19 outbreak.
- e) UK employees have been used as the number of overseas employees is not significant (69) and pay conditions in the non-UK locations (Belgium, China, USA and Dubai) are different from those prevailing in the UK.
- f) The Directors and Non-Executive Directors took a 20 per cent voluntary reduction in pay for part of 2020, in response to the COVID-19 pandemic. This temporary reduction has caused Martyn Coffey's overall salary increase to be 5.4 per cent rather than the 9% expected (Note a) and the Non-Executives to suffer a drop in pay for the year overall rather than the 2.7 per cent increase that was applied to the workforce (Note c) and the Non-Executives.

CEO pay in the last ten years

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

Year	2011 ^a £'000	2012 ^a £'000	2013 ^{a, b} £'000	2014 £'000	2015 £'000	2016 £'000	2017 £'000	2018 £'000	2019 £'000	2020 £'000
Single figure remuneration	752	938	3,143	1,101	2,064	1,913	2,383	1,602	2,213	1,695
% of maximum annual bonus earned	78.1%	33.0%	63.6%	99.3%	100.0%	96.9%	100.0%	98.0%	99.6%	—
% of maximum LTIP/MIP awards vesting	—	—	63.0%	—	100.0%	100.0%	100.0%	98.0%	99.6%	—

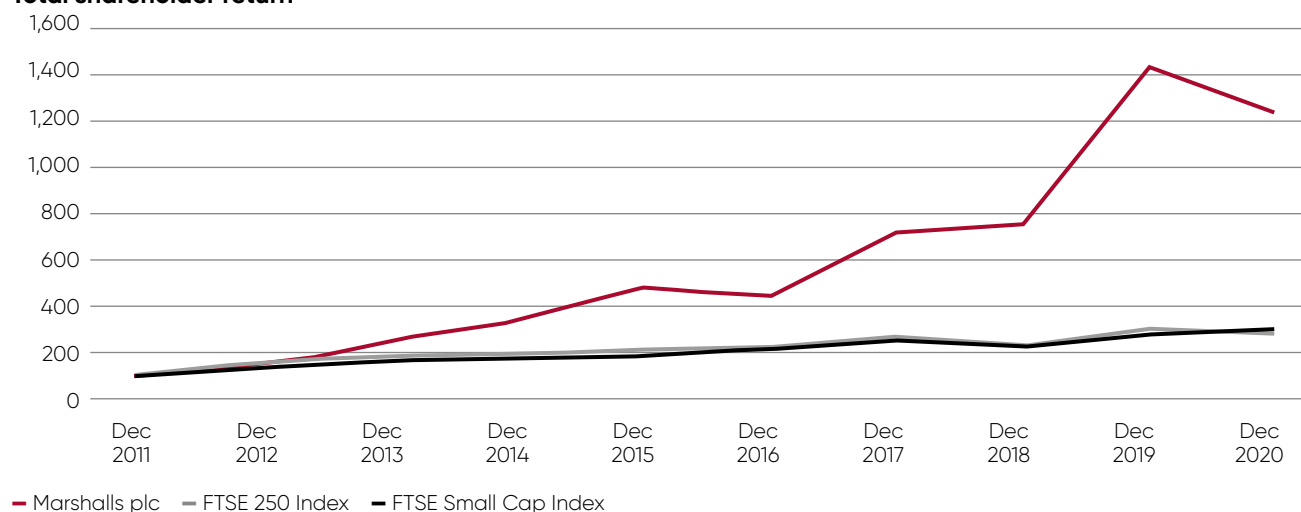
Notes:

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



Fairness, diversity and wider workforce considerations continued

Total shareholder return



This chart shows the Group's total shareholder return ("TSR") performance compared to (i) the FTSE Small Cap Index and (ii) the FTSE 250. TSR is defined as share price growth plus reinvested dividends. Marshalls plc was a constituent of the FTSE Small Cap Index for the period from January 2010 to August 2015 and became a constituent of the FTSE 250 in August 2015. This chart shows the value at 31 December 2020 of £100 invested in Marshalls plc on 1 January 2010 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.

Gender pay versus equal pay

While Marshalls has a duty to report on the gender pay gap – the difference between the average hourly pay of women compared to the average hourly pay of men – it is something that we embrace as we are wholly committed to promoting equality and preventing discrimination at work, especially when it comes to pay. However, gender pay and equal pay are not the same.

Gender pay is the difference between the gross hourly earnings for all men and the gross hourly earnings for all women, irrespective of their role or seniority, and expressed as a percentage of men's earnings. It therefore captures any pay differences between men and women on an organisational level.

Equal pay is where a man and a woman are paid the same for like-for-like work, or work rated as equivalent of equal value. Equal pay issues occur when one person (usually a woman) is paid less for carrying out the same or a similar job than the other.

Whilst both measures share the same broad objective of eliminating sex discrimination in relation to pay, the two are frequently confused. The intention behind equal pay is to ensure that men and women are not paid differently for doing the same or similar work, but this on its own does not prevent a gender pay gap. Gender pay gaps generally exist where the majority of men are in higher paid roles and the majority of women are in lower paid roles.

Gender balance and pay

On the snapshot date of 5 April 2020 the Group's total UK workforce comprised 2,659 employees with the following gender balance:

	Male	Female
Total workforce	2,236	423
Senior managers*	5	2
Directors**	4	3

* Senior managers comprises the Executive Committee and Company Secretary.

** Directors includes the NEDs, CEO and Group FD.

Our gender pay gap disclosure is based on amounts paid in the April 2020 payroll for UK employees. The gender bonus gap is based on incentives paid in the year to 31 March 2020. Our disclosures are made pursuant to UK Government equalities legislation. The two main employer entities in the Group during 2020 were Marshalls Group Limited, which employs the vast majority of employees, and Marshalls plc, which has fewer than 250 employees, mostly at Director/senior manager level.



Gender balance and pay continued

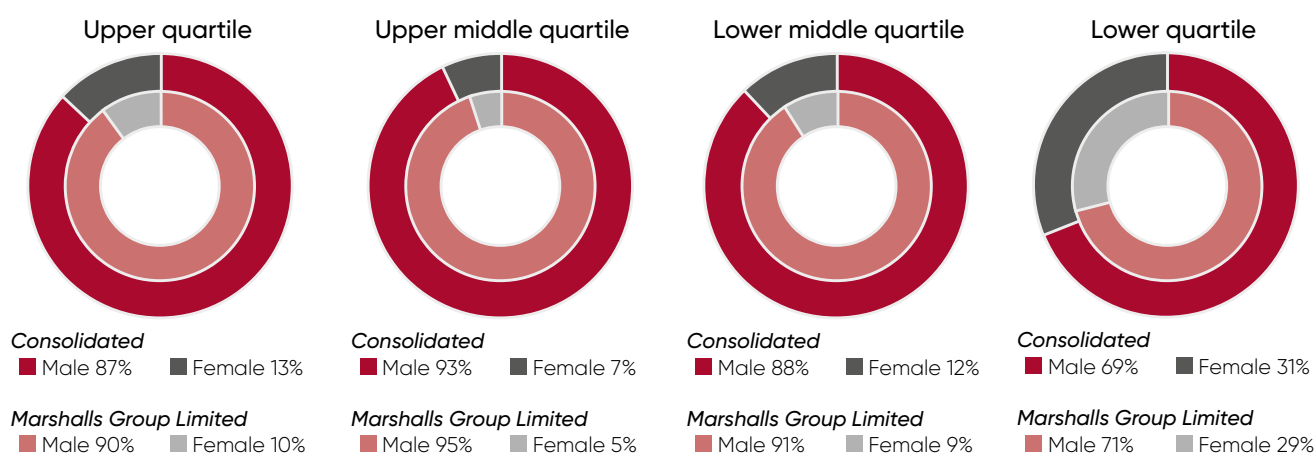
The overall figures shown in the table below are the combined results for Marshall's Group Limited, Marshall's plc and Edenhall Holdings Limited. The Marshall's Group acquired Edenhall Holdings Limited in December 2018 and its employees remained employed by that group until 1 July 2019. As the total workforce within Edenhall is less than 250 employees, there was no previous requirement to disclose gender pay differences. Former Edenhall employees, having transferred to Marshall's Group Limited in 2019, are therefore included in the disclosed results for Marshall's Group Limited, but shown separately for comparison purposes below.

	Mean gender pay gap	Median gender pay gap	Mean bonus gender pay gap	Median bonus gender pay gap
2020 results				
Marshall's Group Limited	15.9%	22.7%	65.2%	25.1%
CPM Group Limited	18.3%	17.4%	39.2%	51.3%
Edenhall Holdings Limited	-4.5%	-13.1%	-45.3%	8.2%
Consolidated (Marshall's plc and Marshall's Group Limited)	3.2%	20.1%	54.0%	21.8%
2019 results				
Marshall's Group Limited	14.6%	18.7%	63.7%	48.6%
CPM Group Limited	11.3%	14.1%	52.4%	54.8%
Consolidated (Marshall's plc and Marshall's Group Limited)	4.3%	17.0%	71.4%	67.0%
2018 results				
Marshall's Group Limited	15.2%	21.2%	85.0%	20.0%
CPM Group Limited	20.6%	23.1%	69.3%	69.7%
Consolidated (Marshall's plc and Marshall's Group Limited)	15.7%	21.8%	79.1%	73.9%

In the previous 12 months, the overall mean gender pay gap has reduced by 1.1 per cent to 3.2 per cent. This reduction is partly reflected by the appointment of an additional female Non-Executive Director to the Board. However, the median gender pay gap has widened by 3.0 per cent indicating that overall the pay for females is not keeping pace with that of males.

The gender split is showing a marginal improvement from the previous year (female workers at 15.4 per cent compared to 16.0 per cent) signalling that more women are joining the business; however, this low ratio is typical of the manufacturing and construction sector generally.

The charts below show the proportion of men and women in each of the four pay quartiles. These figures are broadly similar to the previous year in that approximately 31 per cent of people paid in the lower quartile are women, who conversely make up less than 13 per cent of people paid in the upper quartile. There has been a positive 2 per cent increase in the number of women paid in the upper middle quartile compared to the previous year; however, the two lower quartiles both reflect an adverse change in relation to the proportion of women.





Fairness, diversity and wider workforce considerations continued

Bonus gender pay gap

Both the mean and median bonus gender pay gap have seen an improvement from the previous year. The overall mean bonus gender pay gap has narrowed to 54.0 per cent from 71.4 per cent the previous year, whereas the median measure has more than halved to 21.8 per cent from 67.0 per cent in the previous year.

	Male	Female
Percentage receiving bonus		
Consolidated	32.4%	36.2%
Marshall's Group Limited	15.3%	32.5%
Mean bonus gap		
Consolidated	54.0%	
Marshall's Group Limited	65.2%	
Median bonus gap		
Consolidated	21.8%	
Marshall's Group Limited	25.1%	

The proportion of women receiving a bonus has reduced from 41.6 per cent to 36.2 per cent. The largest contributor to this reduction was in CPM, which has changed from 97.4 per cent of women receiving a bonus last year to 68.4 per cent this year. Prior to transitioning fully into Marshall's, CPM operated a business performance related "Annual Staff Bonus Scheme" for employees not working in a production role (production based employees received a monthly productivity bonus scheme). There are a higher proportion of women working in these non-production areas, which subsequently results in proportionally more women not receiving a bonus when performance targets are not achieved.

	Proportion receiving a bonus	
	Male	Female
Marshall's Group Limited	15.3%	32.5%
Marshall's plc	37.1%	15.2%
CPM Group Limited	92.4%	68.4%
Edenhall Holdings Limited	100%	100%
Overall	32.4%	36.2%

During this time the UK was in the midst of the COVID-19 pandemic and most of the UK had entered the first period of lockdown, which had a profound and direct effect on many UK businesses. Marshall's was no exception and in April 2020, over three-quarters of the UK workforce was placed on furlough. To support furloughed employees the Government introduced the Coronavirus Job Retention Scheme ("CJRS") wage support measure, designed to protect jobs in the wake of the pandemic. The scheme allowed employers to reclaim up to 80 per cent of the wage costs of furloughed employees up to a cap of £2,500 per month per employee. At this time Marshall's took the decision to "top up" furloughed employees, pay to 100 per cent of their normal pay. For variable paid workers (who are predominantly male workers in production, engineering and logistics) this was based on their average earnings from the previous year, which were invariably higher than they would have been in April 2020. These exceptional circumstances taking place on and around the gender pay snapshot date will no doubt have had an influence on the average hourly rates for these groups of people and subsequently the gender pay gap itself.

Equality and diversity initiatives

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

Initiatives and progress during 2020 include:

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



Directors' service contracts

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

In accordance with Policy, Executive Directors' service contracts do not contain liquidated damages clauses, nor any contractual arrangements that would guarantee a pension with limited or no abatement on severance or early retirement or providing for compensation for loss of office or employment that occurs because of a takeover bid. The maximum notice period for an Executive Director is 12 months. Executive Directors are permitted to hold one external plc board appointment and may retain any remuneration received in that capacity.

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

External advisers

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

PwC's fees are agreed by the Remuneration Committee according to the work performed. PwC was appointed after a tender process by the Committee in 2017, and its terms of engagement are available on request from the Company Secretary. PwC also provided general consulting services to the Company during the year on pension matters. The Committee is satisfied that the remuneration advice from PwC is objective and independent based on the separation of the team advising the Committee from any other work undertaken by PwC for the Group and the fact that PwC is a signatory to the Remuneration Consultants Group's Code of Conduct. PwC's work relating to Executive remuneration during 2020 included assistance with the preparation of the Remuneration Committee Report; advice on the operation of the MLP; total remuneration benchmarking of Non-Executive and Executive Directors and senior Executives; and general advice on remuneration trends, regulations and best practice. The amount paid to PwC in respect of remuneration advice received during 2020 was £42,500 (2019: £62,500).

Janet Ashdown

Chair of the Remuneration Committee
11 March 2021



Governance

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. Marshall's plc is registered with company number 5100353.

The Directors of the Company are listed on pages 52 and 53.

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 (2019: £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 1 to 37. Further details of the Group's risk management in relation to financial risks and its use of financial instruments to mitigate such risks are set out in Note 19 on pages 126 to 131.

Greenhouse gas emissions: The Group's response to Streamlined Energy and Carbon Reporting can be found in the Strategic Report on page 47.

Employees: Details of how the Directors have engaged with employees are set out on page 19. Further information is provided in relation to the engagement channels used and the outcomes from the engagement. The Company's policies in relation to diversity and inclusion and employee involvement and communication are explained in the Strategic Report on pages 48 to 50.

Stakeholders: Details of how the Directors have developed relationships with customers, suppliers and other stakeholder groups are set out on pages 18 and 19, along with engagement channels used. Details of the Group's stakeholder engagement strategy are explained on pages 18 and 19. The statement by the Directors in relation to their strategy duly in accordance with S172(1) Companies Act 2006 is found on page 18.

Corporate governance: Details of how the Group complies with the UK Corporate Governance Code are set out on pages 58 to 63.

Post-balance sheet events of importance since 31 December 2020: There have been no important events affecting the Group since the end of the financial year.

Research and development: Activity and likely future developments for the business are described in the Strategic Report on pages 46 to 47.

Dividends

The Board is recommending a final dividend of 4.30 pence (2019: nil pence) per share. No interim dividend was declared. Payment of the final dividend, if approved at the Annual General Meeting, will be made on 1 July 2021 to shareholders registered at the close of business on 4 June 2021. The ex-dividend date will be 3 June 2021.

No dividends were paid in the year to 31 December 2020.

Share capital and authority to purchase shares

The Company's share capital at 1 January 2021 was 200,052,157 Ordinary Shares of 25 pence each. No new Ordinary Shares were issued during the year ended 31 December 2020. Details of the share capital are set out in Note 23 on page 136 and 137.

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 Marshall's plc Employee Benefit Trust ("EBT") holds shares for the purposes of satisfying future awards that may vest under the Company's share-based incentive schemes. The EBT may purchase shares in the Company from time to time to satisfy awards granted to Directors and senior Executives subject to the achievement of performance targets under the Company's incentive schemes. At 31 December 2020 the EBT held 1,289,376 Ordinary Shares in the Company (2019: 1,689,986 shares) in respect of future incentive awards under the Company's employee share schemes. Details of outstanding awards are set out in Note 20 on page 134. 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 Marshall's 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 2020 shareholders gave authority to the Directors to purchase up to 29,987,818 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 2020 and 11 March 2021 under this authority, which will expire at the 2021 Annual General Meeting. 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.

The Group has granted indemnities to its Directors to the extent permitted by law (which one qualifying party indemnities of Section 236 of the Companies Act 2006) and these remained in force during the year in relation to certain losses and liabilities that the Directors may incur to third parties in the course of action as Directors or employees of the Company, any subsidiary or associated company, or a Director of the pension scheme trustee board. Neither the liability insurance nor the indemnities provide cover in the event of proven fraudulent or dishonest activity. The Group has not indemnified any Director under the indemnities currently in place.

Directors' interests

Details of Directors' remuneration, their interests in the share capital of the Company and the share-based payment awards are contained in the Remuneration Committee Report on pages 70 to 89.

Listing Rule requirements

The applicable requirements of Listing Rule 9.8.4R in respect of long-term incentive schemes (pages 134 and 135) and contracts of significance (page 90) are included in this Annual Report.

Substantial shareholdings

The Company has no controlling shareholder. As at 11 March 2021, the Company had been notified, in accordance with DTR 5, of the following disclosable interests of 3 per cent or more in its voting rights:

	As at 11 March 2021 %	As at 31 December 2020 %
Aberdeen Standard Investments	14.72	15.44
BlackRock	6.28	5.93
Majedie Asset Management	6.05	6.61
Royal London Asset Management	4.95	5.03
Montanaro Investment Managers	4.76	4.28
Vanguard Group	4.18	4.04
Lansdowne Partners	3.98	3.97
RWC Partners	3.73	3.69
JP Morgan Asset Management	3.39	3.34

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

Shiv Sibal

Group Company Secretary
11 March 2021



Governance

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 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 and have elected to prepare the Parent Company Financial Statements in accordance with UK Accounting Standards, including FRS 101 "Reduced Disclosure Framework".

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

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

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

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

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

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

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

Responsibility statement of the Directors on the Annual Report and Accounts

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

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

Disclosure of information to the auditor

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



Going concern

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

Cautionary statement and Directors' liability

This Annual Report 2020 has been prepared for, and only for, the members of the Company, as a body, and no other persons. Neither the Company nor the Directors accept or assume any liability to any person to whom this Annual Report is shown or into whose hands it may come except to the extent that such liability arises and may not be excluded under English law. Accordingly, any liability to a person who has demonstrated reliance on any untrue or misleading statement or omission shall be determined in accordance with Section 90A of the Financial Services and Markets Act 2000.

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

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

Annual General Meeting

The Notice convening the Annual General Meeting to be held at Landscape House, Premier Way, Lowfields Business Park, Elland HX5 9HT, together with explanatory notes on the resolutions to be proposed, is contained in a circular to be sent to shareholders with this Annual Report. Due to the continuing impact of COVID-19, and in accordance with the current Government measures restricting public gatherings and non-essential travel, we do not currently intend to admit any shareholders in person at the AGM. As we did last year, we have made arrangements for the AGM to be a "hybrid" meeting allowing shareholders to participate electronically and have made arrangements for the quorum (which is any two shareholders or their proxies/corporate representatives) to be satisfied by the presence of two employee shareholders present in person. Shareholders are encouraged to submit their votes by proxy in accordance with the instructions in the enclosed documents. Given the constantly evolving nature of the pandemic, if the position changes we will update shareholders by announcement on a Regulatory Information Service and on our website at www.marshalls.co.uk/investor/agm-details.

By Order of the Board:

Shiv Sibal

Group Company Secretary

11 March 2021



Independent Auditor's Report to the members of Marshall's plc

Report on the audit of the Financial Statements

1. Opinion

In our opinion:

- the Financial Statements of Marshall's plc (the "Parent Company") and its subsidiaries (the "Group") give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2020 and of the Group's profit for the year then ended;
- the Group Financial Statements have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006, International Financial Reporting Standards ("IFRSs") as adopted by the European Union and IFRSs as issued by the International Accounting Standards Board ("IASB");
- 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.

We have audited the Financial Statements which comprise:

- the Consolidated Income Statement;
- the Consolidated Statement of Comprehensive Income;
- the Consolidated and Parent Company Balance Sheets;
- the Consolidated and Parent Company Statements of Changes in Equity;
- the Consolidated Cash Flow Statement; and
- the related Notes 1 to 43.

The financial reporting framework that has been applied in the preparation of the Group Financial Statements is applicable law, international accounting standards in conformity with the requirements of the Companies Act 2006, and IFRSs as adopted by the European Union and as issued by the IASB. The financial reporting framework that has been applied in the preparation of the Parent Company Financial Statements is applicable law and United Kingdom Accounting Standards, including FRS 101 "*Reduced Disclosure Framework*" (United Kingdom Generally Accepted Accounting Practice).

2. Basis for opinion

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

We are independent of the Group and the Parent Company in accordance with the ethical requirements that are relevant to our audit of the Financial Statements in the UK, including the Financial Reporting Council's ("FRC's") Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. The non-audit services provided to the Group and Parent Company for the year are disclosed in Note 3 to the Financial Statements. We confirm that the non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the Parent Company.

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

3. Summary of our audit approach

Key audit matter	The key audit matter that we identified in the current year was: • Presentation of restructuring costs as exceptional Within this report, key audit matters are identified as follows:  Newly identified  Increased level of risk  Similar level of risk  Decreased level of risk
Materiality	The materiality that we used for the Group Financial Statements was £2.9 million which was determined taking into consideration a number of metrics, but with particular focus on net assets, revenue and profit before tax. Our selected materiality represents approximately 1 per cent of net assets for the year.
Scoping	Full scope audits were performed on all UK components. This accounts for 95 per cent of Group revenue, 100 per cent of Group net assets and 93 per cent of profit before tax generated by profit making entities.
Significant changes in our approach	We identified a new key audit matter in relation to the presentation of restructuring costs as exceptional as a result of the significant one-off restructuring exercise carried out during the year. We no longer have a key audit matter in relation to valuation of inventory provisions reflecting that the amounts of inventory provision that relate to areas subject to significant management judgement are not material. We also no longer have a key audit matter relating to revisions to provisional fair values for the Edenhall acquisition in 2018 as the hindsight period for fair value revisions ended in 2019 and the extent of judgement relating to such provisions and accruals has reduced. Our approach to determining materiality has changed from 5 per cent of profit before tax to a consideration of a number of metrics including net assets, revenue and profit before tax due to the significant adverse impact on trading and reported profits during 2020 arising from the COVID 19 pandemic. There have been no other significant changes to our approach since the prior year.



4. Conclusions relating to going concern

In auditing the Financial Statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the Financial Statements is appropriate.

Our evaluation of the Directors' assessment of the Group's and Parent Company's ability to continue to adopt the going concern basis of accounting included:

- evaluating the level of borrowing including consideration of undrawn facilities and compliance with covenants;
- assessing the assumptions used in forecasts, including performing sensitivity analysis and the impact of Brexit, COVID-19 and climate change;
- assessing the historical accuracy of forecasts prepared by management against actuals achieved; and
- testing of clerical accuracy of the model used to prepare the forecasts.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group's and Parent Company's ability to continue as a going concern for a period of at least twelve months from when the Financial Statements are authorised for issue.

In relation to the reporting on how the Group has applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the Directors' Statement in the Financial Statements about whether the Directors considered it appropriate to adopt the going concern basis of accounting.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report.

5. Key audit matters

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

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

5.1 Recognition of restructuring costs as exceptional !

Key audit matter description
The Group Income Statement set out on page 101 of the Annual Report and Accounts separately presents exceptional costs of £14.7 million, net of tax (2019: £nil) when arriving at the results for the year with additional information disclosed in Note 5. The Group's policy on the presentation of exceptional items can be found on page 108. The Audit Committee also discusses this area in its report on pages 66 to 69. Business performance is a critical measure for the stakeholders and therefore the classification of items as exceptional and presentation of performance metrics excluding exceptional items is important for users of the accounts and is a key audit matter. Exceptional costs relate to the one-off operational restructuring within the business that was carried out during the year, primarily as part of the Group's response to the adverse trading consequences experienced in the year as a result of the COVID-19 pandemic. The key items recognised as exceptional are as follows: 1) £78 million redundancy payments for affected employees; 2) asset impairments of £5.5 million for assets no longer expected to be used; and 3) £4.5 million of closure costs relating to closure of certain operating sites.



Independent Auditor's Report continued

to the members of Marshall's plc

5. Key audit matters continued

5.1 Recognition of restructuring costs as exceptional **!** continued

How the scope of our audit responded to the key audit matter	Audit procedures applicable: • We obtained an understanding of relevant controls around the presentation of items as exceptional. • We assessed the Group's policy on classification of items as exceptional and considered whether this policy was appropriate against guidance issued by the Financial Reporting Council ("FRC") and the European Securities and Markets Authority ("ESMA"). • We challenged management on the presentation of exceptional items within the "middle column" and whether these had been correctly presented in the correct column and in line with the Group's policy. • We agreed costs classified as exceptional to amounts paid, asset carrying values for items impaired and to other external documentation including valuation reports, where appropriate, and recalculated the amount of exceptional costs identified and separately presented as exceptional. • We assessed the appropriateness of the disclosure in the Financial Statements relating to the reconciliations between alternative performance measures ("APMs") and their closest statutory measure. • We evaluated the presentation and disclosure of management's conclusions in the Annual Report and Accounts to assess whether disclosures are consistent with the Group's policy and relevant accounting standards.
Key observations	Based on our procedures we concur that the judgements made by management in presenting certain restructuring costs as exceptional are reasonable.

6. Our application of materiality

6.1 Materiality

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

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

	Group Financial Statements	Parent Company Financial Statements
Materiality	£2.9 million (2019: £3.5 million)	£1.4 million (2019: £1.4 million)
Basis for determining materiality	We have determined materiality by considering a range of possible benchmarks with a particular focus on net assets, revenue and profit before tax, as well as the scale of the balance sheet and the overall size of the business. Our selected materiality represents approximately 1 per cent of net assets. Materiality in the prior year was determined based on 5 per cent profit before tax.	Parent Company materiality equates to 0.5 per cent of net assets (2019: 0.5 per cent of net assets).
Rationale for the benchmark applied	When determining materiality, we have considered the size and scale of the business and the nature of its operations. We have also considered which benchmarks would be of relevance to the users of the Financial Statements and those applied to the audit of similar businesses. The downturn in revenues, profits and cash flows experienced during 2020 as a consequence of COVID-19 and the UK lockdown means that we do not consider profit before tax to be the most appropriate metric for determining materiality for FY20. Our materiality is based upon a range of possible benchmarks and represents approximately 1 per cent of net assets and represents 0.6 per cent of revenue. We consider that net assets represents a more stable benchmark and indicator of financial strength and that revenue provides a measure of current activity levels.	As a holding company, net assets are considered to be the primary benchmark.



6. Our application of materiality continued

6.2. Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the Financial Statements as a whole.

	Group Financial Statements	Parent Company Financial Statements
Performance materiality	70% (2019: 70%) of Group materiality	70% of Parent Company materiality (2019: 70% of Parent Company materiality)
Basis and rationale for determining performance materiality	In determining performance materiality, we considered the following factors: a. our risk assessment, including our assessment of the quality of the control environment and whether we were able to rely on controls; b. the impact of COVID-19 on the business and its operating environment; and c. the history of there being no quantitatively or qualitatively significant corrected or uncorrected misstatements in prior periods.	

6.3. Error reporting threshold

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £145,000 (2019: £171,000), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the Financial Statements.

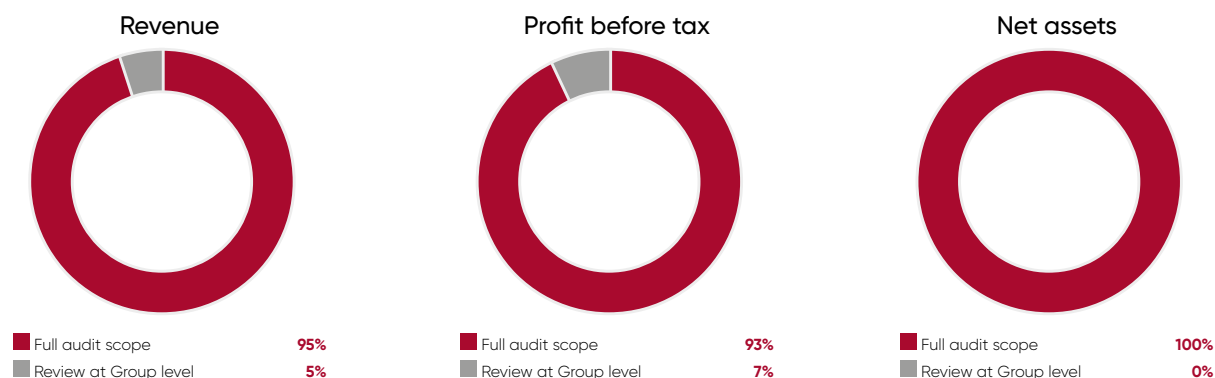
7. An overview of the scope of our audit

7.1. Identification and scoping of components

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

The Group audit team performed the entire audit of the significant UK component of the Group. The UK component accounted for 95 per cent (2019: 96 per cent) of Group revenue, 100 per cent (2019: 100 per cent) of Group net assets and 93 per cent (2019: 100 per cent) of Group profit before tax generated by profit making entities.

At the Group level, we also tested the consolidation process. The Group audit team carried out analytical procedures to confirm our conclusion that there were no significant risks of material misstatement of the aggregated financial information of the remaining components not subject to audit.





Independent Auditor's Report continued to the members of Marshall's plc

Report on the audit of the Financial Statements continued

7. An overview of the scope of our audit continued

7.2. Our consideration of the control environment

IT systems

To support the audit testing performed we have involved our IT specialists to consider the relevant IT systems used by the Group to generate information which supports the amounts recognised in the Financial Statements. In order to evaluate the IT environment of the Group we have obtained an understanding of relevant IT systems and the automated controls within these systems.

In evaluating the IT environment, we have:

- tested the IT systems within the main finance IT system. This system is used for the entity's financial reporting process and covers all finance, payroll and HR modules. We have also tested the Data Warehouse system which houses the inventory database;
- tested General IT Controls for each of these systems: Access Security (Joiners, Movers, Leavers ("JML"), Passwords, Privileged Access and User Access Reviews ("UARs")), Change Management (Change Process and Segregation of Duties) and Batch Jobs (Access to Amend, and Monitoring of Batch Jobs);
- performed sample testing, where applicable, in order to determine operating effectiveness (JML, UARs, Change Management and Batch Job Monitoring); and
- taken reliance on all IT controls associated with these systems.

Controls reliance

In addition to our substantive testing performed during our audit we obtained an understanding of the relevant controls in key business cycles. In the current year we have taken controls reliance over the revenue and customer rebates business cycles as these are the key accounts that impact the Group's profit.

8. Other information

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

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

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

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

We have nothing to report in this regard.

9. Responsibilities of Directors

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

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

10. Auditor's responsibilities for the audit of the Financial Statements

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

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



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

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

11.1. Identifying and assessing potential risks related to irregularities

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

- the nature of the industry and sector, control environment and business performance including the design of the Group's remuneration policies, key drivers for Directors' remuneration, bonus levels and performance targets;
- results of our enquiries of management, internal audit and the Audit Committee about their own identification and assessment of the risks of irregularities;
- any matters we identified having obtained and reviewed the Group's documentation of their policies and procedures relating to:
 - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
 - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud; and
 - the internal controls established to mitigate risks of fraud or non-compliance with laws and regulations; and
- the matters discussed among the audit engagement team and relevant internal specialists, including tax, pensions and IT, regarding how and where fraud might occur in the Financial Statements and any potential indicators of fraud.

As a result of these procedures, we considered the opportunities and incentives that may exist within the organisation for fraud and identified the greatest potential for fraud in the following areas: presentation of restructuring costs as exceptional. In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override.

We also obtained an understanding of the legal and regulatory frameworks that the Group operates in, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the Financial Statements. The key laws and regulations we considered in this context included the UK Companies Act, Listing Rules, pensions legislation and tax legislation.

In addition, we considered provisions of other laws and regulations that do not have a direct effect on the Financial Statements but compliance with which may be fundamental to the Group's ability to operate or to avoid a material penalty.

11.2. Audit response to risks identified

As a result of performing the above, we identified presentation of restructuring costs as exceptional as a key audit matter related to the potential risk of fraud. The key audit matters section of our report explains the matter in more detail and also describes the specific procedures we performed in response to that key audit matter.

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

- reviewing the Financial Statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the Financial Statements;
- enquiring of management, the Audit Committee and in-house and external legal counsel concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with HMRC; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

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

Report on other legal and regulatory requirements

12. Opinions on other matters prescribed by the Companies Act 2006

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

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

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

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



Independent Auditor's Report continued to the members of Marshall's plc

Report on other legal and regulatory requirements continued

13. Corporate Governance Statement

The Listing Rules require us to review the Directors' statement in relation to going concern, longer-term viability and that part of the Corporate Governance Statement relating to the Group's compliance with the provisions of the UK Corporate Governance Code specified for our review.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the Corporate Governance Statement is materially consistent with the Financial Statements and our knowledge obtained during the audit:

- the Directors' statement with regards to the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified set out on page 108;
- the Directors' explanation as to their assessment of the Group's prospects, the period this assessment covers and why the period is appropriate set out on pages 25 and 26;
- the Directors' statement on fair, balanced and understandable set out on page 55;
- the Board's confirmation that it has carried out a robust assessment of the emerging and principal risks set out on page 26;
- the section of the Annual Report that describes the review of effectiveness of risk management and internal control systems set out on pages 68 and 69; and
- the section describing the work of the Audit Committee set out on pages 68 and 69.

14. Matters on which we are required to report by exception

14.1. Adequacy of explanations received and accounting records

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

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

We have nothing to report in respect of these matters.

14.2. Directors' remuneration

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

We have nothing to report in respect of this matter.

15. Other matters which we are required to address

15.1. Auditor tenure

Following the recommendation of the Audit Committee, we were appointed by the shareholders on 20 May 2015 to audit the Financial Statements for the year ending 31 December 2015 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 6 years, covering the years ending 31 December 2015 to 31 December 2020.

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

Our audit opinion is consistent with the additional report to the Audit Committee we are required to provide in accordance with ISAs (UK).

16. Use of our report

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an Auditor's Report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

David Johnson FCA (Senior Statutory Auditor)

for and on behalf of Deloitte LLP

Statutory Auditor

Leeds, United Kingdom

11 March 2021



Consolidated Income Statement

for the year ended 31 December 2020

	Notes	Before operational restructuring costs and asset impairments 2020 £'000	Operational restructuring costs and asset impairments 2020 £'000	Year ended 2020 £'000	Year ended 2019 £'000
Revenue	2	469,454	–	469,454	541,832
Net operating costs	3	(442,272)	(17,809)	(460,081)	(468,151)
Operating profit	2	27,182	(17,809)	9,373	73,681
Financial expenses	6	(4,730)	–	(4,730)	(3,835)
Financial income	6	10	–	10	7
Profit before tax	2	22,462	(17,809)	4,653	69,853
Income tax expense	7	(5,196)	3,101	(2,095)	(11,942)
Profit for the financial year		17,266	(14,708)	2,558	57,911
Profit for the year					
Attributable to:					
Equity shareholders of the Parent		17,078	(14,708)	2,370	58,240
Non-controlling interests		188	–	188	(329)
		17,266	(14,708)	2,558	57,911
Earnings per share					
Basic	8	8.60p		1.19p	29.36p
Diluted	8	8.53p		1.18p	29.14p
Dividend					
Pence per share	9	4.30p			16.70p
Dividends declared	9	–			33,113

All results relate to continuing operations.



Financial Statements

Consolidated Statement of Comprehensive Income

for the year ended 31 December 2020

	Notes	2020 £'000	2019 £'000
Profit for the financial year before operational restructuring costs and asset impairments		17,266	57,911
Operational restructuring costs and asset impairments		(14,708)	–
Profit for the financial year		2,558	57,911
Other comprehensive (expense)/income			
<i>Items that will not be reclassified to the Income Statement:</i>			
Remeasurements of the net defined benefit surplus	20	(12,741)	2,847
Deferred tax arising	22	2,421	(484)
Impact of the change in rate of deferred tax on defined benefit plan actuarial loss		(314)	–
Total items that will not be reclassified to the Income Statement		(10,634)	2,363
<i>Items that are or may in the future be reclassified to the Income Statement:</i>			
Effective portion of changes in fair value of cash flow hedges		(1,526)	231
Fair value of cash flow hedges transferred to the Income Statement		1,238	113
Deferred tax arising	22	42	(58)
Exchange difference on retranslation of foreign currency net investment		(1,117)	992
Exchange movements associated with borrowings designated as a hedge against net investment		922	(869)
Foreign currency translation differences – non-controlling interests		39	(42)
Total items that are or may be reclassified to the Income Statement		(402)	367
Other comprehensive (expense)/income for the year, net of income tax		(11,036)	2,730
Total comprehensive (expense)/income for the year		(8,478)	60,641
Attributable to:			
Equity shareholders of the Parent		(8,705)	61,012
Non-controlling interests	24	227	(371)
		(8,478)	60,641



Consolidated Balance Sheet

at 31 December 2020

	Notes	2020 £'000	2019 £'000
Assets			
Non-current assets			
Property, plant and equipment	10	179,401	195,554
Right-of-use assets	11	44,990	40,014
Intangible assets	12	94,679	95,799
Employee benefits	20	2,726	15,721
Deferred taxation assets	22	2,620	2,947
		324,416	350,035
Current assets			
Inventories	13	89,782	89,238
Trade and other receivables	14	95,742	69,418
Cash and cash equivalents	15	103,707	53,258
Assets classified as held for sale	10	450	—
Derivative financial instruments	19	332	620
		290,013	212,534
Total assets		614,429	562,569
Liabilities			
Current liabilities			
Trade and other payables	16	119,816	121,379
Corporation tax		7,277	11,234
Short-term lease liabilities	18	10,065	9,736
Interest-bearing loans and borrowings	17	20,000	20,000
		157,158	162,349
Non-current liabilities			
Long-term lease liabilities	18	38,926	32,224
Interest-bearing loans and borrowings	17	110,282	51,274
Provisions	21	3,149	2,649
Deferred taxation liabilities	22	17,066	18,307
		169,423	104,454
Total liabilities		326,581	266,803
Net assets		287,848	295,766
Equity			
Capital and reserves attributable to equity shareholders of the Parent			
Called-up share capital	23	50,013	50,013
Share premium account		24,482	24,482
Own shares		(806)	(1,391)
Capital redemption reserve		75,394	75,394
Consolidation reserve		(213,067)	(213,067)
Hedging reserve		313	559
Retained earnings		350,569	359,053
Equity attributable to equity shareholders of the Parent		286,898	295,043
Non-controlling interests	24	950	723
Total equity		287,848	295,766

Approved at a Directors' meeting on 11 March 2021.

On behalf of the Board:

Martyn Coffey
Chief Executive

Jack Clarke
Finance Director

The Notes on pages 107 to 139 form part of these Consolidated Financial Statements.



Financial Statements

Consolidated Cash Flow Statement

for the year ended 31 December 2020

	Notes	2020 £'000	2019 £'000
Cash flows from operating activities			
Profit before operational restructuring costs and asset impairments		17,266	57,911
Operational restructuring costs and asset impairments		(14,708)	–
Profit for the financial year		2,558	57,911
Income tax expense on continuing operations	7	5,196	11,942
Income tax credit on operational restructuring costs and asset impairments	7	(3,101)	–
Profit before tax		4,653	69,853
Adjustments for:			
Depreciation of property, plant and equipment	10	15,657	14,903
Asset impairments	10	5,489	–
Depreciation of right-of-use assets	11	12,060	12,868
Amortisation	12	2,719	2,423
Gain on sale of property, plant and equipment	3	(1,103)	(306)
Equity settled share-based payments		2,998	3,024
Financial income and expenses (net)		4,720	3,828
Operating cash flow before changes in working capital		47,193	106,593
(Increase)/decrease in trade and other receivables		(26,031)	10,645
Increase in inventories		(180)	(5,262)
Increase/(decrease) in trade and other payables		7,442	(10,151)
Operational restructuring costs paid		(6,946)	(1,109)
Acquisition costs paid		–	(375)
Cash generated from operations		21,478	100,341
Financial expenses paid		(4,475)	(3,193)
Income tax paid		(4,631)	(9,023)
Net cash flow from operating activities		12,372	88,125
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		11,450	523
Financial income received		10	7
Acquisition of property, plant and equipment		(13,158)	(20,488)
Acquisition of intangible assets		(1,599)	(2,420)
Net cash flow from investing activities		(3,297)	(22,378)
Cash flows from financing activities			
Proceeds from issue of share capital		–	225
Payments to acquire own shares		(2,705)	(1,470)
Repayment of borrowings		(10,009)	(60,736)
New loans		67,900	49,809
Cash payment for the principal portion of lease liabilities		(13,780)	(12,723)
Equity dividends paid		–	(33,203)
Net cash flow from financing activities		41,406	(58,098)
Net increase in cash and cash equivalents		50,481	7,649
Cash and cash equivalents at the beginning of the year		53,258	45,709
Effect of exchange rate fluctuations		(32)	(100)
Cash and cash equivalents at the end of the year		103,707	53,258



Consolidated Statement of Changes in Equity

for the year ended 31 December 2020

	Attributable to equity holders of the Company							Total £'000	Non- controlling interests £'000	Total equity £'000
	Share capital £'000	Share premium account £'000	Own shares £'000	Capital redemption reserve £'000	Consolidation reserve £'000	Hedging reserve £'000	Retained earnings £'000			
Current year										
At 1 January 2020	50,013	24,482	(1,391)	75,394	(213,067)	559	359,053	295,043	723	295,766
Total comprehensive (expense)/ income for the year										
Profit for the financial year attributable to equity shareholders of the Parent	—	—	—	—	—	—	2,370	2,370	188	2,558
Other comprehensive (expense)/income										
Foreign currency translation differences	—	—	—	—	—	—	(195)	(195)	39	(156)
Effective portion of changes in fair value of cash flow hedges	—	—	—	—	—	(1,526)	—	(1,526)	—	(1,526)
Net change in fair value of cash flow hedges transferred to the Income Statement	—	—	—	—	—	1,238	—	1,238	—	1,238
Deferred tax arising	—	—	—	—	—	42	—	42	—	42
Defined benefit plan actuarial loss	—	—	—	—	—	—	(12,741)	(12,741)	—	(12,741)
Deferred tax arising	—	—	—	—	—	—	2,421	2,421	—	2,421
Impact of the change in rate of deferred tax on defined benefit plan actuarial loss	—	—	—	—	—	—	(314)	(314)	—	(314)
Total other comprehensive (expense)/income	—	—	—	—	—	(246)	(10,829)	(11,075)	39	(11,036)
Total comprehensive (expense)/ income for the year	—	—	—	—	—	(246)	(8,459)	(8,705)	227	(8,478)
Share-based payments	—	—	—	—	—	—	2,998	2,998	—	2,998
Deferred tax on share-based payments	—	—	—	—	—	—	(104)	(104)	—	(104)
Corporation tax on share-based payments	—	—	—	—	—	—	371	371	—	371
Purchase of own shares	—	—	(2,705)	—	—	—	—	(2,705)	—	(2,705)
Disposal of own shares	—	—	3,290	—	—	—	(3,290)	—	—	—
Total contributions by and distributions to owners	—	—	585	—	—	—	(25)	560	—	560
Total transactions with owners of the Company	—	—	585	—	—	(246)	(8,484)	(8,145)	227	(7,918)
At 31 December 2020	50,013	24,482	(806)	75,394	(213,067)	313	350,569	286,898	950	287,848



Financial Statements

Consolidated Statement of Changes in Equity continued for the year ended 31 December 2020

	Attributable to equity holders of the Company							Total £'000	Non- controlling interests £'000	Total equity £'000
	Share capital £'000	Share premium account £'000	Own shares £'000	Capital redemption reserve £'000	Consolidation reserve £'000	Hedging reserve £'000	Retained earnings £'000			
Prior year										
At 1 January 2019	49,998	24,326	(888)	75,394	(213,067)	273	329,585	265,621	1,094	266,715
Effect of initial application of IFRS 16	–	–	–	–	–	–	(1,842)	(1,842)	–	(1,842)
At 1 January 2019 – as restated	49,998	24,326	(888)	75,394	(213,067)	273	327,743	263,779	1,094	264,873
Total comprehensive income/ (expense) for the year										
Profit for the financial year attributable to equity shareholders of the Parent	–	–	–	–	–	–	58,240	58,240	(329)	57,911
Other comprehensive income/(expense)										
Foreign currency translation differences	–	–	–	–	–	–	123	123	(42)	81
Effective portion of changes in fair value of cash flow hedges	–	–	–	–	–	231	–	231	–	231
Net change in fair value of cash flow hedges transferred to the Income Statement	–	–	–	–	–	113	–	113	–	113
Deferred tax arising	–	–	–	–	–	(58)	–	(58)	–	(58)
Defined benefit plan actuarial gain	–	–	–	–	–	–	2,847	2,847	–	2,847
Deferred tax arising	–	–	–	–	–	–	(484)	(484)	–	(484)
Total other comprehensive income/(expense)	–	–	–	–	–	286	2,486	2,772	(42)	2,730
Total comprehensive income/ (expense) for the year	–	–	–	–	–	286	60,726	61,012	(371)	60,641
Transactions with owners, recorded directly in equity										
Contributions by and distributions to owners										
Share-based payments	–	–	–	–	–	–	3,024	3,024	–	3,024
Deferred tax on share-based payments	–	–	–	–	–	–	1,219	1,219	–	1,219
Corporation tax on share-based payments	–	–	–	–	–	–	457	457	–	457
Dividends to equity shareholders	–	–	–	–	–	–	(33,203)	(33,203)	–	(33,203)
Shares issued	15	156	54	–	–	–	–	225	–	225
Purchase of own shares	–	–	(1,470)	–	–	–	–	(1,470)	–	(1,470)
Disposal of own shares	–	–	913	–	–	–	(913)	–	–	–
Total contributions by and distributions to owners	15	156	(503)	–	–	–	(29,416)	(29,748)	–	(29,748)
Total transactions with owners of the Company	15	156	(503)	–	–	286	31,310	31,264	(371)	30,893
At 31 December 2019	50,013	24,482	(1,391)	75,394	(213,067)	559	359,053	295,043	723	295,766



Notes to the Consolidated Financial Statements

1 Accounting policies

Significant accounting policies

Marshall's plc (the "Company") is a public company limited by shares, incorporated in the United Kingdom under the Companies Act, and is registered in England and Wales. The Consolidated Financial Statements of the Company for the year ended 31 December 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 accounting policies are set out on the Company's website.

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 and these are presented on pages 140 to 147.

(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 37. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are also set out in the Strategic Report. In addition, Note 19 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 19. 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, Marshall's 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



1 Accounting policies continued

Significant accounting policies continued

(b) Basis of preparation continued

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. These are set out in Note 30 on page 139. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

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

Judgements made by management in the application of adopted IFRSs that have a significant effect on the Consolidated Financial Statements and estimates with a significant risk of material adjustment in the next year are discussed in Note 30.

(c) Basis of consolidation

(i) Subsidiaries

Subsidiaries (which are set out in detail in Note 34 on pages 144 and 145) 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.



1 Accounting policies continued

Significant accounting policies continued

(c) Basis of consolidation continued

(ii) Associates (equity-accounted investees) continued

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.

**1 Accounting policies continued****Significant accounting policies continued****(f) Hedging**

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

(i) Cash flow hedges

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

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

(ii) Economic hedges

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

(g) Property, plant and equipment**(i) Owned assets**

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

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

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

(ii) Subsequent costs

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

(iii) Depreciation

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

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

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

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.



1 Accounting policies continued

Significant accounting policies continued

(g) Property, plant and equipment continued

(iii) Depreciation continued

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

(h) Intangible assets

(i) Goodwill

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

For acquisitions on or after 1 January 2004, the Group measures goodwill at the acquisition date as:

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

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

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

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

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

In respect of business acquisitions that have occurred since 1 January 2004, goodwill represents the difference between the cost of the acquisition and the fair value of the net identifiable assets and contingent liabilities acquired. The classification and accounting treatment relating to the acquisition of Edenhall Holdings Limited on 11 December 2018 was adjusted in preparing the Group's opening IFRS balance sheet at 1 January 2019. Further details of this business combination are included in Note 25.

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.

**1 Accounting policies continued****Significant accounting policies continued****(h) Intangible assets continued****(v) Amortisation**

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

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

(i) Trade and other receivables

Trade and other receivables are stated at 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).



1 Accounting policies continued

Significant accounting policies continued

(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.



1 Accounting policies continued

Significant accounting policies continued

(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.



1 Accounting policies continued

Significant accounting policies continued

(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 Marshall's 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 Marshall's 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. Further details have been included in Note 5.

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 (Note 3) and £209,000 relating to assets previously classified as finance leases but now reclassified as right-of-use assets.



Notes to the Consolidated Financial Statements continued

1 Accounting policies continued

Significant accounting policies continued

(z) Alternative performance measures continued

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. An analysis of net debt is provided in Note 26.

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%

2 Segmental analysis

Segment revenues and results

	2020			2019		
	Landscape Products £'000	Other £'000	Total £'000	Landscape Products* £'000	Other* £'000	Total £'000
Total revenue	381,304	90,903	472,207	448,972	96,965	545,937
Inter-segment revenue	(314)	(2,439)	(2,753)	(362)	(3,743)	(4,105)
External revenue	380,990	88,464	469,454	448,610	93,222	541,832
Segment operating profit	32,413	1,517	33,930	75,013	3,369	78,382
Operational restructuring costs and asset impairments			(17,809)			—
Unallocated administration costs			(6,748)			(4,701)
Operating profit			9,373			73,681
Finance charges (net)			(4,720)			(3,828)
Profit before tax			4,653			69,853
Taxation			(2,095)			(11,942)
Profit after tax			2,558			57,911

* Following a change to the way in which information is reported internally, the comparative figures are being restated to ensure consistent classification with the analysis reported for the year ended 31 December 2020.

The Group has 2 customers which each contributed more than 10 per cent of total revenue in the current and prior year.

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



2 Segmental analysis continued

Segment revenues and results continued

Included in "Other" are the Group's Landscape Protection, Mineral Products, Premier Mortars and International operations, which do not currently meet the IFRS 8 reporting requirements.

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

Segment assets

	2020 £'000	2019* £'000
Property, plant and equipment, right-of-use assets and inventory:		
Landscape Products	248,245	249,764
Other	65,928	75,042
Total segment property, plant and equipment, right-of-use assets and inventory	314,173	324,806
Unallocated assets	300,256	237,763
Consolidated total assets	614,429	562,569

* Following a change to the way in which information is reported internally, the comparative figures are being restated to ensure consistent classification with the analysis reported for the year ended 31 December 2020.

For the purpose of monitoring segment performance and allocating resources between segments, the Group's CODM monitors the property, plant and equipment, right-of-use assets and inventory. Assets used jointly by reportable segments are not allocated to individual reportable segments.

Other segment information

	Depreciation and amortisation		Property, plant and equipment and right-of-use asset additions	
	2020 £'000	2019* £'000	2020 £'000	2019 £'000
Landscape Products	23,707	23,133	24,723	24,550
Other	6,729	7,061	6,528	5,027
	30,436	30,194	31,251	29,577

* Following a change to the way in which information is reported internally, the comparative figures are being restated to ensure consistent classification with the analysis reported for the year ended 31 December 2020.

Geographical destination of revenue

	2020 £'000	2019 £'000
United Kingdom	438,173	514,905
Rest of the world	31,281	26,927
	469,454	541,832

The Group's revenue is subject to seasonal fluctuations resulting from demand from customers. In particular, demand is higher in the summer months. The Group manages the seasonal impact through the use of a seasonal working capital facility.

**3 Net operating costs**

	2020 £'000	2019 £'000
Raw materials and consumables	183,361	198,124
Changes in inventories of finished goods and work in progress	(378)	847
Personnel costs (Note 4)	122,260	128,221
Depreciation of property, plant and equipment	15,657	14,903
Depreciation of right-of-use assets	12,060	12,868
Amortisation of intangible assets	2,719	2,423
Own work capitalised	(2,991)	(4,216)
Other operating costs	112,603	116,135
Redundancy and other restructuring costs	356	1,396
Operating costs	445,647	470,701
Other operating income	(2,272)	(2,244)
Net gain on asset and property disposals	(1,103)	(306)
Net operating costs before operational restructuring costs and asset impairments	442,272	468,151
Operational restructuring costs and asset impairments (Note 5)	17,809	–
Net operating costs	460,081	468,151
	2020 £'000	2019 £'000
Net operating costs include:		
Auditor's remuneration (see below)	286	248
Short-term and low value lease costs	4,551	3,769
Research and development costs	3,109	5,535
In respect of the year under review, Deloitte LLP carried out work in relation to:		
	2020 £'000	2019 £'000
Audit of Financial Statements of Marshalls plc	45	30
Audit of Financial Statements of subsidiaries of the Company	211	198
Half-yearly review of Marshalls plc	30	20
	286	248



4 Personnel costs

	2020 £'000	2019 £'000
Personnel costs (including amounts charged in the year in relation to Directors):		
Wages and salaries	99,082	104,338
Social security costs	10,650	12,367
Share-based payments	2,630	3,024
Contributions to defined contribution pension scheme	9,898	8,492
Included within net operating costs (Note 3)	122,260	128,221
Personnel costs relating to restructuring (Note 3)	52	1,076
Personnel costs relating to operational restructuring and asset impairments (Note 5)*	7,818	—
Total personnel costs	130,130	129,297

* Personnel costs relating to operational restructuring asset impairments of £7,818,000 includes £368,000 in relation to share-based payments.

	2020 £'000	2019 £'000
Remuneration of Directors:		
Salary	785	762
Other benefits	37	46
MIP Element A bonus	—	1,341
MIP Element B bonus	—	379
Amounts receivable under the MIP at the end of the first cycle	1,808	975
Salary supplement in lieu of pension	145	152
Non-Executive Directors' fees and fixed allowances	393	360
	3,168	4,015

The aggregate of emoluments and amounts receivable under the MIP of the highest paid Director was £1,695,000 (2019: £2,213,000), including a salary supplement in lieu of pension of £85,000 (2019: £92,000).

There are no Directors to whom retirement benefits are accruing in respect of qualifying services. As set out in the Annual Remuneration Report on page 79, the Executive Directors receive a salary supplement in lieu of pension equal to their contractual entitlements.

Further details of Directors' remuneration, share options, long-term incentive plans and Directors' pension entitlements are disclosed in the Remuneration Committee Report on pages 70 to 89.

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

	2020 Number	2019 Number
Continuing operations	2,579	2,816

5 Operational restructuring costs and asset impairments

	2020 £'000	2019 £'000
Works closure costs	4,502	—
Redundancy	7,818	—
Asset impairments	5,489	—
	17,809	—

6 Financial expenses and income

	2020 £'000	2019 £'000
(a) Financial expenses		
Net interest expense on defined benefit pension scheme	154	542
Interest expense on bank loans	2,972	1,951
Interest expense on lease liabilities	1,604	1,342
	4,730	3,835
(b) Financial income		
Interest receivable and similar income	10	7

Net interest expense on the defined benefit pension scheme is disclosed net of Company recharges (Note 20).



Notes to the Consolidated Financial Statements continued

7 Income tax expense

	Before operational restructuring costs and asset impairments 2020 £'000	Operational restructuring costs and asset impairments 2020 £'000	Year ended 2020 £'000	Year ended 2019 £'000
Current tax expense				
Current year	5,072	(2,341)	2,731	13,214
Adjustments for prior years	(1,768)	–	(1,768)	(1,577)
	3,304	(2,341)	963	11,637
Deferred taxation expense				
Origination and reversal of temporary differences:				
Current year	918	(760)	158	556
Adjustments for prior years	974	–	974	(251)
Total tax expense	5,196	(3,101)	2,095	11,942
	2020 %	2020 £'000	2019 %	2019 £'000
Reconciliation of effective tax rate				
Profit before tax	100.0	4,653	100.0	69,853
Tax using domestic corporation tax rate	19.0	884	19.0	13,272
Impact of capital allowances in excess of depreciation	3.7	173	(0.7)	(523)
Short-term timing differences	13.9	645	0.6	386
Adjustment to tax charge in prior year	(38.0)	(1,768)	(2.3)	(1,577)
Expenses not deductible for tax purposes	22.1	1,029	0.1	79
Corporation tax charge for the year	20.7	963	16.7	11,637
Impact of capital allowances in excess of depreciation	(34.1)	(1,585)	0.9	648
Short-term timing differences	1.1	52	–	–
Pension scheme movements	(2.7)	(124)	(0.2)	(109)
Other items	0.4	18	0.4	261
Adjustment to tax charge in prior year	20.9	974	(0.4)	(251)
Impact of the change in the rate of corporation tax on deferred taxation	38.7	1,797	(0.3)	(244)
Total tax charge for the year	45.0	2,095	17.1	11,942

The net amount of deferred taxation credited to the Consolidated Statement of Comprehensive Income in the year was £2,149,000 (2019: debited £542,000).

The majority of the Group's profits are earned in the UK with the standard rate of corporation tax being 19 per cent for the year to 31 December 2020. The 2019 Budget announced that the UK corporation tax rate will remain at 19 per cent from 2020 rather than reduce to 17 per cent, which had previously been confirmed. This change was substantively enacted on 17 March 2020; consequently, the deferred taxation liability at 31 December 2020 has been calculated at 19 per cent, which is the rate at which the deferred tax is expected to unwind in the future using rates enacted at the balance sheet date. The rate change has given rise to an increase to the deferred tax charge of £1.6 million. This has given rise to the increase in the effective tax rate.

Capital allowances are tax reliefs provided in law for the expenditure the Group makes on fixed assets. The rates are determined by Parliament annually, and spread the tax relief due over a number of years. This contrasts with the accounting treatment for such spending, where the expenditure on fixed assets is treated as an investment with the cost then being spread over the anticipated useful life of the asset, and/or impaired if the value of such assets is considered to have reduced materially.

The different accounting treatment of fixed assets for tax and accounting purposes is one reason why the taxable income of the Group is not the same as its accounting profit. During the year ended 31 December 2020 the capital allowances due to the Group exceeded the depreciation charge for the year.

Short-term timing differences arise on items such as depreciation in stock and share-based payments because the treatment of such items is different for tax and accounting purposes. These differences usually reverse in the years following those in which they arise, as is reflected in the deferred tax charge in the Financial Statements.

Adjustments to tax charges arising in earlier years arise because the tax charge to be included in a set of accounts has to be estimated before those Financial Statements are finalised. Such charges therefore include some estimates that are checked and refined before the Group's corporation tax returns for the year are submitted to HM Revenue & Customs, which may reflect a different liability as a result.



7 Income tax expense continued

Some expenses incurred may be entirely appropriate charges for inclusion in the Financial Statements but are not allowed as a deduction against taxable income when calculating the Group's tax liability for the same accounting period. Examples of such disallowable expenditure include business entertainment costs and some legal expenses.

The prior year adjustment in corporation tax includes the reversal of some tax provisions made on acquisition of subsidiaries in prior years which are no longer required.

As can be seen from the tax reconciliation, the process of adjustment that can give rise to current year adjustments to tax charges arising in previous periods can also give rise to revisions in prior year deferred tax estimates. This is why the current year adjustments to the current year charge for capital allowances and short-term timing differences are not exactly replicated in the deferred taxation charge for the year.

The Group's overseas operations comprise a manufacturing operation in Belgium and sales and administration offices in the USA and China. The sales of these units, in total, were less than 7 per cent of the Group's turnover in the year ended 31 December 2020. In total, the trading profits were not material and no tax was due.

8 Earnings per share

Basic earnings per share from total operations of 1.19 pence (2019: 29.36 pence) per share is calculated by dividing the profit attributable to Ordinary Shareholders for the financial year, after adjusting for non-controlling interests, of £2,370,000 (2019: £58,240,000) by the weighted average number of shares in issue during the period of 198,642,224 (2019: 198,346,723).

Basic earnings per share before operational restructuring costs and asset impairments of 8.60 pence (2019: 29.36 pence) per share is calculated by dividing the profit attributable to Ordinary Shareholders for the financial year, after adjusting for non-controlling interests, of £17,078,000 (2019: £58,240,000) by the weighted average number of shares in issue during the period of 198,642,224 (2019: 198,346,723).

Profit attributable to Ordinary Shareholders

	2020 £'000	2019 £'000
Profit before operational restructuring and asset impairments	17,266	57,911
Operational restructuring costs and asset impairments	(14,708)	—
Profit for the financial year	2,558	57,911
(Profit)/loss attributable to non-controlling interests	(188)	329
Profit attributable to Ordinary Shareholders	2,370	58,240

Weighted average number of Ordinary Shares

	2020 Number	2019 Number
Number of issued Ordinary Shares	200,052,157	200,052,157
Effect of shares transferred into Employee Benefit Trust	(1,409,933)	(1,705,434)
Weighted average number of Ordinary Shares at the end of the year	198,642,224	198,346,723

Diluted earnings per share from total operations of 1.18 pence (2019: 29.14 pence) per share is calculated by dividing the profit for the financial year, after adjusting for non-controlling interests, of £2,370,000 (2019: £58,240,000) by the weighted average number of shares in issue during the period of 198,642,224 (2019: 198,346,723) plus potentially dilutive shares of 1,614,132 (2019: 1,496,678), which totals 200,256,356 (2019: 199,843,401).

Diluted earnings per share before operational restructuring costs and asset impairments of 8.53 pence (2019: 29.14 pence) per share is calculated by dividing the profit for the financial year, after adjusting for non-controlling interests, of £17,078,000 (2019: £58,240,000) by the weighted average number of shares in issue during the period of 198,642,224 (2019: 198,346,723) plus potentially dilutive shares of 1,614,132 (2019: 1,496,678), which totals 200,256,356 (2019: 199,843,401).

Weighted average number of Ordinary Shares (diluted)

	2020 Number	2019 Number
Weighted average number of Ordinary Shares	198,642,224	198,346,723
Potentially dilutive shares	1,614,132	1,496,678
Weighted average number of Ordinary Shares (diluted)	200,256,356	199,843,401

9 Dividends

After the balance sheet date, a final dividend of 4.30 pence was proposed by the Directors. This dividend has not been provided for and there are no income tax consequences. Due to the impact of COVID-19, the Board withdrew the previously announced 2019 final and supplementary dividends. In addition, the Board did not propose an interim dividend during 2020.

	Pence per qualifying share	2020 £'000	2019 £'000
2020 final	4.30	8,542	—
2019 interim	4.70	—	9,323



Notes to the Consolidated Financial Statements continued

9 Dividends continued

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

	Pence per qualifying share	2020 £'000	2019 £'000
2019 interim	4.70	—	9,323
2018 supplementary	4.00	—	7,930
2018 final	8.00	—	15,860
	16.70	—	33,113

The Board recommends a 2020 final dividend of 4.30 pence per qualifying Ordinary Share (amounting to £(8,542,000)), to be paid on 1 July 2021 to shareholders registered at the close of business on 4 June 2021.

10 Property, plant and equipment

	Land and buildings £'000	Quarries £'000	Plant, machinery and vehicles £'000	Total £'000
Cost				
At 1 January 2019	102,738	28,689	369,438	500,865
Exchange differences	(472)	—	(379)	(851)
Additions	3,326	390	17,278	20,994
Reclassified as right-of-use assets	—	(402)	(2,072)	(2,474)
Disposals	(167)	—	(2,034)	(2,201)
At 31 December 2019	96,492	29,474	382,231	516,333
At 1 January 2020	105,425	28,677	382,231	516,333
Exchange differences	414	—	351	765
Additions	407	327	12,424	13,158
Reclassified as held for sale	(1,114)	—	—	(1,114)
Reclassifications	(523)	523	—	—
Disposals	(8,117)	(53)	(6,327)	(14,497)
At 31 December 2020	96,492	29,474	388,679	514,645
Depreciation and impairment losses				
At 1 January 2019	40,573	8,634	259,597	308,804
Depreciation charge for the year	1,927	349	12,627	14,903
Exchange differences	(15)	—	(294)	(309)
Reclassified as right-of-use assets	—	—	(777)	(777)
Disposals	(167)	—	(1,675)	(1,842)
At 31 December 2019	42,318	8,983	269,478	320,779
At 1 January 2020	42,318	8,983	269,478	320,779
Depreciation charge for the year	1,822	350	13,485	15,657
Exchange differences	17	—	296	313
Impairments	597	—	4,892	5,489
Reclassified as held for sale	(664)	—	—	(664)
Reclassifications	819	5	(824)	—
Disposals	(408)	(53)	(5,869)	(6,330)
At 31 December 2020	44,501	9,285	281,458	335,244
Net book value				
At 1 January 2019	62,165	20,055	109,841	192,061
At 31 December 2019	63,107	19,694	112,753	195,554
At 31 December 2020	51,991	20,189	107,221	179,401

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

Impairments relate to fixed assets held at certain sites which have been closed during the year. The impairment represents the assets being written down to fair value less cost to sell. In respect of the impairments of £5,489,000, the amount relating to the Landscape Products operating segment is £3,446,000, with £2,043,000 relating to Other.



10 Property, plant and equipment continued

During the year ended 31 December 2020, land and buildings with a book value of £450,000 (2019: £nil) have been reclassified as held for sale in accordance with IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations".

At 1 January 2019, the carrying amount of tangible fixed assets included £402,000 of land assets and £1,295,000 of plant and machinery held under finance leases. These have been reclassified as right-of-use assets on transition to IFRS 16. Group cost of land and buildings and plant and machinery includes £73,000 (2019: £178,000) and £4,495,000 (2019: £3,385,000) respectively for assets in the course of construction.

Capital commitments

	2020 £'000	2019 £'000
Capital expenditure that has been contracted for but for which no provision has been made in the Consolidated Financial Statements	3,496	3,868

Depreciation charge

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

	2020 £'000	2019 £'000
Net operating costs (Note 3)	15,657	14,903

11 Right-of-use assets

	Land and buildings £'000	Plant and equipment £'000	Total £'000
Cost			
New leases recognised	20,508	24,514	45,022
Reclassification of finance lease assets	402	1,295	1,697
At 1 January 2019	20,910	25,809	46,719
Additions	74	6,089	6,163
At 31 December 2019	20,984	31,898	52,882
At 1 January 2020	20,984	31,898	52,882
Additions	4,135	12,359	16,494
Disposals	(188)	(3,428)	(3,616)
Modifications	—	542	542
At 31 December 2020	24,931	41,371	66,302
Depreciation and impairment losses			
At 1 January 2019	—	—	—
Depreciation charge for the year	2,057	10,811	12,868
At 31 December 2019	2,057	10,811	12,868
At 1 January 2020	2,057	10,811	12,868
Depreciation charge for the year	2,176	9,884	12,060
Disposals	(188)	(3,428)	(3,616)
At 31 December 2020	4,045	17,267	21,312
Net book value			
At 31 December 2019	18,927	21,087	40,014
At 31 December 2020	20,886	24,104	44,990

Depreciation charge

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

	2020 £'000	2019 £'000
Net operating costs (Note 3)	12,060	12,868

Lease commitments

	2020 £'000	2019 £'000
Lease commitments that have been contracted for but have not yet commenced	2,963	1,764



Notes to the Consolidated Financial Statements continued

12 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 2019	87,426	12,811	1,629	1,760	159	16,355	120,140
Additions	–	–	–	–	–	2,420	2,420
At 31 December 2019	87,426	12,811	1,629	1,760	159	18,775	122,560
At 1 January 2020	87,426	12,811	1,629	1,760	159	18,775	122,560
Additions	–	–	–	–	–	1,599	1,599
At 31 December 2020	87,426	12,811	1,629	1,760	159	20,374	124,159
Amortisation and impairment losses							
At 1 January 2019	8,912	3,001	960	1,474	117	9,874	24,338
Amortisation for the year	–	1,060	103	42	8	1,210	2,423
At 31 December 2019	8,912	4,061	1,063	1,516	125	11,084	26,761
At 1 January 2020	8,912	4,061	1,063	1,516	125	11,084	26,761
Amortisation for the year	–	1,060	103	42	8	1,506	2,719
At 31 December 2020	8,912	5,121	1,166	1,558	133	12,590	29,480
Carrying amounts							
At 1 January 2019	78,514	9,810	669	286	42	6,481	95,802
At 31 December 2019	78,514	8,750	566	244	34	7,691	95,799
At 31 December 2020	78,514	7,690	463	202	26	7,784	94,679

All goodwill has arisen from business combinations. The carrying amount of goodwill is allocated across cash generating units ("CGUs") and these CGUs are independent sources of income streams and represent the lowest level within the Group at which the associated goodwill is monitored for management purposes. The Group tests goodwill annually for impairment, or more frequently if there are indications that goodwill might be impaired. The recoverable amounts of the CGUs are determined from value-in-use calculations and at both 31 December 2020 and 31 December 2019 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 three year forecasts, containing assumptions for revenue growth and operational gearing, and appropriate long-term growth rates of 2.6 per cent. The long-term growth rate assumption reflects the long-term average growth rate for the UK economy. To prepare value-in-use calculations, the cash flow forecasts are discounted back to present value using an appropriate market-based discount rate. The pre-tax discount rate used to calculate the value in use was 10.5 per cent (2019: 7.4 per cent). The Directors have reviewed the recoverable amounts of the CGUs, and considered possible impacts from the Brexit transition process and other principal risks and uncertainties. The potential longer-term impacts of climate change continue to be taken into account as a key focus area, along with market changes driven by advances in technology. The Directors do not consider that any reasonable change in the assumptions would give rise to the need for further impairment.

Included in software additions is £1,414,000 (2019: £1,438,000) of own work capitalised.

Amortisation charge

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

	2020 £'000	2019 £'000
Net operating costs (Note 3)	2,719	2,423



13 Inventories

	2020 £'000	2019 £'000
Raw materials and consumables	21,335	19,956
Finished goods and goods for resale	68,447	69,282
	89,782	89,238

Inventories stated at a net realisable value less than cost at 31 December 2020 amounted to £3,553,000 (2019: £3,465,000). The write down of inventories made during the year amounted to £1,036,000 (2019: £1,151,000). There were £167,000 of reversals of inventory write downs made in previous years in 2020 (2019: £201,000).

14 Trade and other receivables

	2020 £'000	2019 £'000
Trade receivables	73,290	48,039
Other receivables	13,408	12,123
Prepayments and accrued income	9,044	9,256
	95,742	69,418

Included within other receivables is a reimbursement asset of £4,149,000 (2019: £5,142,000) which is held in escrow in relation to the acquisitions made in prior years.

Ageing of trade receivables

	2020 £'000	2019 £'000
Neither impaired nor past due	37,604	24,484
Not impaired but overdue by less than 30 days	29,295	15,282
Not impaired but overdue by between 30 and 60 days	2,634	2,938
Not impaired but overdue by more than 60 days	3,757	5,335
	73,290	48,039

There were no receivables due after more than one year (2019: £nil). All amounts disclosed above are considered recoverable and are disclosed net of a provision for expected credit losses of £899,000 (2019: £533,000). This provision has been determined using a lifetime expected credit loss calculation. Assumptions made regarding the recoverability of balances have been determined with reference to past default experiences in line with our policies and understanding. Balances are only written off if deemed irrecoverable after all credit control procedures have been exhausted.

15 Cash and cash equivalents

	2020 £'000	2019 £'000
Bank balances	103,690	53,242
Cash in hand	17	16
Cash and cash equivalents in the Consolidated Cash Flow Statement	103,707	53,258

16 Trade and other payables

	2020 £'000	2019 £'000
Current liabilities		
Trade payables	59,282	54,920
Taxation and social security	10,998	12,718
Other payables	20,786	26,692
Accruals	28,750	27,049
	119,816	121,379

All trade payables are due in 6 months or less.



Notes to the Consolidated Financial Statements continued

17 Loans

	2020 £'000	2019 £'000
Current liabilities		
Bank loans	20,000	20,000
Non-current liabilities		
Bank loans	110,282	51,274

Bank loans

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

18 Lease liabilities

	2020 £'000	2019 £'000
Analysed as:		
Amounts due for settlement within 12 months (shown under current liabilities)	10,065	9,736
Amounts due for settlement after 12 months	38,926	32,224
	48,991	41,960

	2020			2019		
	Minimum lease payments £'000	Interest £'000	Principal £'000	Minimum lease payments £'000	Interest £'000	Principal £'000
Less than 1 year	11,579	1,514	10,065	10,835	1,099	9,736
1 to 2 years	8,605	1,287	7,318	8,322	1,476	6,846
2 to 5 years	12,350	2,036	10,314	12,469	2,080	10,389
In more than 5 years	28,598	7,304	21,294	21,225	6,236	14,989
	61,132	12,141	48,991	52,851	10,891	41,960

As at 31 December 2020, the total minimum lease payments (above) comprised property of £32,122,000 (2019: £30,323,000) and plant, machinery and vehicles of £29,010,000 (2019: £22,528,000).

On 10 September 2020 the Group completed a sale and leaseback transaction in relation to its site in Rumst, Belgium. The net cash proceeds of €12,481,000 have been used to pay down the inter-company indebtedness between Marshalls NV and Marshalls Mono Limited. The net profit for the Group of £1,484,000 has been disclosed within the net gain on asset and property disposals (Note 3). The lease has a 10-year term, with an option to extend after 5 years. It has currently not been assumed that the option to extend will be exercised as the Directors do not believe that this is reasonably certain.

Certain leased properties have been sublet by the Group. Sublease payments of £239,003 (2019: £214,068) are expected to be received during the following financial year. An amount of £225,786 (2019: £229,034) was recognised as income in the Consolidated Income Statement within net operating costs in respect of subleases.

The Group does not face a significant liquidity risk with regard to its lease liabilities. For the year ended 31 December 2020, the interest expense on lease liabilities amounted to £1,604,000 (2019: £1,342,000). Lease liabilities are calculated at the present value of the lease payments that are not paid at the commencement date.

For the year ended 31 December 2020, the average effective borrowing rate was 2.8 per cent. Interest rates are fixed at the contract date. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

The vast majority of lease obligations are denominated in Sterling.

19 Financial instruments

The Group holds and uses financial instruments to finance its operations and to manage its interest rate, liquidity and currency risks. The Group primarily finances its operations using share capital, retained profits and borrowings. The Group's bank loans are non-equity funding instruments, further details of which are set out on pages 129 and 130.

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 2019.



19 Financial instruments continued

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 2020 and 31 December 2019.

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 1 to 37. The key financial risks resulting from financial instruments are liquidity risk, interest rate risk, credit risk, foreign currency risk and pricing risk.

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

(a) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Board is responsible for ensuring that the Group has sufficient liquidity to meet its financial liabilities as they fall due and does so by monitoring cash flow forecasts and budgets. Cash resources are largely and normally generated through operations and short-term flexibility is achieved by bank facilities. Bank debt is raised centrally and the Group aims to maintain a balance between flexibility and continuity of funding by having a range of maturities on its borrowings. Details of the Group borrowing facilities are provided on pages 129 and 130.

(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.

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 2019.

	2020 £'000	2019 £'000
Increase of 100 basis points	(652)	(753)
Decrease of 100 basis points	652	753

(c) Credit risk

Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed on all customers requiring credit over a certain amount and, where appropriate, credit insurance cover is obtained. This provides excellent intelligence to minimise the number and value of bad debts and ultimately provides compensation if bad debts are incurred. An ageing of trade receivables is shown in Note 14 on page 125.

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

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



Notes to the Consolidated Financial Statements continued

19 Financial instruments continued

Financial risks continued

(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 £28,000 liability (2019: £99,000 liability) and is adjusted against the hedging reserve on an ongoing basis. During the year £71,000 (2019: £129,000) has been recognised in other comprehensive income for the year with £nil (2019: £nil) being reclassified from equity to the Income Statement. At 31 December 2020 all outstanding forward exchange contracts had a maturity date within 6 months.

The foreign currency profile of monetary items was:

	2020					2019				
	Sterling £'000	Euro £'000	US Dollar £'000	AED £'000	Total £'000	Sterling £'000	Euro £'000	US Dollar £'000	AED £'000	Total £'000
Cash and cash equivalents	101,177	1,185	1,316	29	103,707	50,049	839	2,344	26	53,258
Trade receivables	71,501	1,549	360	(120)	73,290	44,553	3,206	280	–	48,039
Secured bank loans	(122,400)	(7,882)	–	–	(130,282)	(54,500)	(16,774)	–	–	(71,274)
Lease liabilities	(42,742)	(6,249)	–	–	(48,991)	(41,658)	(302)	–	–	(41,960)
Trade payables	(50,294)	(8,509)	(477)	(2)	(59,282)	(45,588)	(8,091)	(1,213)	(28)	(54,920)
Derivative financial instruments	304	18	10	–	332	521	90	9	–	620
Balance sheet exposure	(42,454)	(19,888)	1,209	(93)	(61,226)	(46,623)	(21,032)	1,420	(2)	(66,237)

A 10 per cent strengthening and weakening of the following currencies against the Pound Sterling at 31 December 2020 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 2019:

	2020 £'000	2019 £'000
10 per cent strengthening of £ against €	1,768	1,843
10 per cent weakening of £ against €	(1,446)	(1,508)
10 per cent strengthening of £ against \$	(107)	(126)
10 per cent weakening of £ against \$	88	103
10 per cent strengthening of £ against Dhs	8	–
10 per cent weakening of £ against Dhs	(7)	–

(e) Pricing risks

Where appropriate the Group uses hedging instruments to mitigate the risks of significant forward price rises of fuel in relation to expected consumption. The current hedges held are in place until 31 December 2021. The Group classifies its fuel hedges as cash flow hedges and states them at fair value. The fair value of the fuel hedges is a £304,000 asset (2019: £521,000 asset) and is adjusted against the hedging reserve on an ongoing basis. The period that the fuel hedges cover is matched against future expected purchases in order to fix the impact on the Income Statement. During the year £1,455,000 (2019: £102,000) has been recognised in other comprehensive income, with £1,238,000 (2019: £113,000) being reclassified from equity to the Income Statement. The fuel hedges have been fully effective in the period.

When combining fuel hedges and forward contracts this gives a total of £1,526,000 debit (2019: £231,000 credit) recognised in other comprehensive income for the year with £1,238,000 credit (2019: £113,000 credit) being reclassified from equity to the Income Statement.



19 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 1 to 37.

Effective interest rates and maturity of liabilities

At 31 December 2020 there were £48,991,000 (2019: £41,960,000) of Group borrowings on a fixed rate. The interest rate profile of the financial liabilities is set out below. The tables also disclose cash and cash equivalents in order to reconcile to net debt (Note 26).

	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 2020								
Cash and cash equivalents (Note 15)	Variable	2.30	(103,707)	(103,707)	–	–	–	–
Bank loans (Note 17)	Variable	2.30	130,282	–	20,000	10,591	99,691	–
Lease liabilities (Note 18)	Fixed	2.82	48,991	5,422	4,643	7,318	10,314	21,294
			75,566	(98,285)	24,643	17,909	110,005	21,294
	Fixed or variable rate	Effective interest rate %	Total £'000	6 months or less £'000	6 – 12 months £'000	1 – 2 years £'000	2 – 5 years £'000	More than 5 years £'000

31 December 2019								
Cash and cash equivalents (Note 15)	Variable	1.81	(53,258)	(53,258)	–	–	–	–
Bank loans (Note 17)	Variable	1.81	71,274	–	20,000	39,405	11,869	–
Lease liabilities (Note 18)	Fixed	2.97	41,960	4,363	5,373	6,846	10,389	14,989
			59,976	(48,895)	25,373	46,251	22,258	14,989

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 2020								
Bank loans	Variable	130,282	134,044	710	20,637	11,809	100,888	–
Trade and other payables	Variable	110,039	110,039	110,039	–	–	–	–
Lease liabilities	Fixed	48,991	61,132	6,169	5,410	8,605	12,350	28,598
Derivative financial assets	Fixed	(332)	(332)	(166)	(166)	–	–	–
		288,980	304,883	116,752	25,881	20,414	113,238	28,598
	Fixed or variable rate	Carrying value £'000	Total £'000	6 months or less £'000	6 – 12 months £'000	1 – 2 years £'000	2 – 5 years £'000	More than 5 years £'000
31 December 2019								
Bank loans	Variable	71,274	72,658	522	20,369	39,842	11,925	–
Trade and other payables	Variable	108,621	108,621	108,621	–	–	–	–
Lease liabilities	Fixed	41,960	52,851	4,888	5,947	8,322	12,469	21,225
Derivative financial assets	Fixed	(620)	(620)	(487)	(133)	–	–	–
		221,235	233,510	113,544	26,183	48,164	24,394	21,225

Borrowing facilities

The total bank borrowing facilities at 31 December 2020 amounted to £255.0 million (2019: £155.0 million), of which £124.7 million (2019: £83.7 million) remained unutilised. The undrawn facilities available at 31 December 2020, in respect of which all conditions precedent had been met, were as follows:

	2020 £'000	2019 £'000
Committed:		
Expiring in more than 5 years	–	–
Expiring in more than 2 years but not more than 5 years	9,718	68,726
Expiring in 1 year or less	90,000	–
Uncommitted:		
Expiring in 1 year or less	25,000	15,000
	124,718	83,726

**19 Financial instruments continued****Borrowing facilities continued**

On 1 May 2020, the Group signed agreements with each of NatWest, Lloyds and HSBC for an additional £30 million, 12-month committed revolving credit facility with each. These additional facilities comprise £90 million and significantly strengthen the Group's headroom. These additional facilities have not been drawn down and there is no current expectation that they will be utilised before maturity. In addition, the seasonal on demand facility of £10 million was extended from 31 August 2020 to 31 January 2021. Including these additional facilities, Marshall's has total bank facilities of £255 million, of which £230 million is committed. In addition, the Group established a facility line with the COVID-19 Corporate Financing Facility ("CCFF") with an issuer limit of £200 million. This has not been utilised. The Group's committed bank facilities are all revolving credit facilities with interest charged at variable rates based on LIBOR. The Group's bank facilities continue to be aligned with the current strategy to ensure that headroom against available facilities remains at appropriate levels. On 9 September 2020, the Group signed an agreement with HSBC to extend its existing four year, £35 million facility for a further year until August 2024. The maturity profile of borrowing facilities is structured to provide balanced, committed and phased medium-term debt. 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.

The current facilities are set out as follows:

	Facility £'000	Cumulative facility £'000
Committed facilities		
Q3: 2024	35,000	35,000
Q1: 2024	25,000	60,000
Q3: 2023	20,000	80,000
Q2: 2023	20,000	100,000
Q4: 2022	20,000	120,000
Q3: 2021	20,000	140,000
Q2: 2021	90,000	230,000
On-demand facilities		
Available all year	15,000	245,000
Seasonal (February to August inclusive)	10,000	255,000

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 2020 is shown below:

	2020		2019	
	Book amount £'000	Fair value £'000	Book amount £'000	Fair value £'000
Trade and other receivables	86,699	86,699	60,162	60,162
Cash and cash equivalents	103,707	103,707	53,258	53,258
Bank loans	(130,282)	(126,010)	(71,274)	(69,936)
Lease liabilities	(48,991)	(61,132)	(41,960)	(52,851)
Trade payables, other payables and provisions	(110,039)	(110,039)	(108,621)	(108,621)
Interest rate swaps, forward contracts and fuel hedges	332	332	620	620
Contingent consideration	(1,800)	(1,800)	(2,420)	(2,420)
Financial instrument assets and liabilities – net	(100,374)		(110,235)	
Non-financial instrument assets and liabilities – net	388,222		406,001	
	287,848		295,766	

Estimation of fair values

The following summarises the major methods and assumptions used in estimating the fair values of financial instruments reflected in the table. Other than contingent consideration, which uses a level 3 basis, all use level 2 valuation techniques.

(a) Derivatives

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

(b) Interest-bearing loans and borrowings

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

(c) Finance lease liabilities

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



19 Financial instruments continued

Borrowing facilities continued

(d) Trade and other receivables/payables

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

(e) Contingent consideration

The basis of calculating contingent consideration is set out in Note 25 on page 137.

(f) Fair value hierarchy

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

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
31 December 2020				
Derivative financial assets	–	332	–	332
31 December 2019				
Derivative financial assets	–	620	–	620

20 Employee benefits

The Company sponsors a funded defined benefit pension scheme in the UK (the "Scheme"). The Scheme is administered within a trust which is legally separate from the Company. The Trustee Board is appointed by both the Company and the Scheme's membership and acts in the interest of the Scheme and all relevant stakeholders, including the members and the Company. The Trustee is also responsible for the investment of the Scheme's assets.

The defined benefit section of the Scheme provides pension and lump sums to members on retirement and to dependants on death. The defined benefit section closed to future accrual of benefits on 30 June 2006 with the active members becoming entitled to a deferred pension. Members no longer pay contributions to the defined benefit section. Company contributions to the defined benefit section after this date are used to fund any deficit in the Scheme and the expenses associated with administering the Scheme, as determined by regular actuarial valuations.

The Trustee is required to use prudent assumptions to value the liabilities and costs of the Scheme whereas the accounting assumptions must be best estimates.

The defined benefit section of the Scheme poses a number of risks to the Company, for example longevity risk, investment risk, interest rate risk, inflation risk and salary risk. The Trustee is aware of these risks and uses various techniques to control them. The Trustee has a number of internal control policies, including a Risk Register, which are in place to manage and monitor the various risks it faces. The Trustee's investment strategy incorporates the use of liability-driven investments ("LDIs") to minimise sensitivity of the actuarial funding position to movements in interest rates and inflation rates.

The defined benefit section of the Scheme is subject to regular actuarial valuations, which are usually carried out every 3 years. The next actuarial valuation is expected to be carried out with an effective date of 5 April 2021. These actuarial valuations are carried out in accordance with the requirements of the Pensions Act 2004 and so include deliberate margins for prudence. This contrasts with these accounting disclosures which are determined using best estimate assumptions.

A formal actuarial valuation was carried out as at 5 April 2018. The results of that valuation have been projected to 31 December 2020 by a qualified independent actuary. The figures in the following disclosure were measured using the projected unit method.

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

	2020 £'000	2019 £'000	2018 £'000
Present value of Scheme liabilities	(399,938)	(353,136)	(330,222)
Fair value of Scheme assets	402,664	368,857	343,738
Net amount recognised at the year end (before any adjustments for deferred tax)	2,726	15,721	13,516



Notes to the Consolidated Financial Statements continued

20 Employee benefits continued

The current and past service costs, settlements and curtailments, together with the net interest expense for the year, are included in the employee benefits expense in the Consolidated Statement of Comprehensive Income. Remeasurements of the net defined benefit surplus are included in other comprehensive income.

	2020 £'000	2019 £'000
Net interest expense recognised in the Consolidated Income Statement	254	642
Remeasurements of the net liability:		
Return on scheme assets (excluding amount included in interest expense)	(40,151)	(33,362)
Loss arising from changes in financial assumptions	52,491	38,367
Loss/(gain) arising from changes in demographic assumptions	1,209	(13,017)
Experience (gain)/loss	(808)	5,165
Debit/(credit) recorded in other comprehensive income	12,741	(2,847)
Total defined benefit debit/(credit)	12,995	(2,205)
The principal actuarial assumptions used were:		
	2020 £'000	2019 £'000
Liability discount rate	1.40%	2.10%
Inflation assumption – RPI	2.85%	2.95%
Inflation assumption – CPI	2.20%	2.05%
Rate of increase in salaries	n/a	n/a
Revaluation of deferred pensions	2.20%	2.10%
Increases for pensions in payment:		
CPI pension increases (maximum 5% p.a.)	2.20%	2.10%
CPI pension increases (maximum 5% p.a., minimum 3% p.a.)	3.25%	3.20%
CPI pension increases (maximum 3% p.a.)	1.95%	1.90%
Proportion of employees opting for early retirement	0%	0%
Proportion of employees commuting pension for cash	80%	80%
Mortality assumption – before retirement	Same as post-retirement	Same as post-retirement
Mortality assumption – after retirement (males)	S2PXA tables	S2PXA tables
Loading	110%	110%
Projection basis	Year of birth CMI_2019	Year of birth CMI_2018
	1.0%	1.0%
Mortality assumption – after retirement (females)	S2PXA tables	S2PXA tables
Loading	110%	110%
Projection basis	Year of birth CMI_2019	Year of birth CMI_2018
	1.0%	1.0%
Future expected lifetime of current pensioner at age 65:		
Male aged 65 at year end	85.7	85.6
Female aged 65 at year end	87.7	87.5
Future expected lifetime of future pensioner at age 65:		
Male aged 45 at year end	86.7	86.6
Female aged 45 at year end	88.9	88.7



20 Employee benefits continued

Changes in the present value of assets over the year

	2020 £'000	2019 £'000
Fair value of assets at the start of the year	368,857	343,738
Interest income	7,600	9,228
Return on assets (excluding amount included in net interest expense)	40,151	33,362
Benefits paid	(13,366)	(16,457)
Administration expenses	(578)	(1,014)
Fair value of assets at the end of the year	402,664	368,857
Actual return on assets over the year	47,751	42,590

Changes in the present value of liabilities over the year

	2020 £'000	2019 £'000
Liabilities at the start of the year	353,136	330,222
Past service cost	–	–
Interest cost	7,276	8,856
Remeasurement losses/(gains):		
Actuarial losses arising from changes in financial assumptions	52,491	38,367
Actuarial losses/(gains) arising from changes in demographic assumptions	1,209	(13,017)
Experience (gain)/loss	(808)	5,165
Benefits paid	(13,366)	(16,457)
Liabilities at the end of the year	399,938	353,136

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

	2020 £'000	2019 £'000
Deferred pensioners	222,830	185,341
Pensioners in payment	177,108	167,795
	399,938	353,136
Average duration of the Scheme's liabilities at the end of the year (in years)	18	18

The major categories of Scheme assets are as follows:

	2020 £'000	2019 £'000
Return-seeking assets		
UK equities	1,850	2,019
Overseas equities	40,199	35,172
Other equity type investments	34,038	34,796
Total return-seeking assets	76,087	71,987
Other		
Insured pensioners	769	679
Cash	4,384	5,161
Property	34,110	–
Liability-driven investments and bonds	287,314	291,030
Total matching assets	326,577	296,870
Total market value of assets	402,664	368,857

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 2021.



Notes to the Consolidated Financial Statements continued

20 Employee benefits continued**Sensitivity of the liability value to changes in the principal assumptions**

If the discount rate were 0.5 per cent higher/(lower), the defined benefit section Scheme liabilities would decrease by approximately £37.2 million (increase by £37.2 million) if all the other assumptions remained unchanged.

If the inflation assumption were 0.1 per cent higher/(lower), the Scheme liabilities would increase by £2.8million (decrease by £2.8 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 £19.8 million (decrease by £19.8 million) if all the other assumptions remained unchanged.

Management Incentive Plan ("MIP")

Share-based payment awards have been made during the year in accordance with the rules of the MIP. Full details of the performance criteria and the basis of operation of the MIP are set out in the Remuneration Committee Report on pages 70 to 89.

Equity settled awards are settled by physical delivery of shares. The following equity settled awards have been granted:

	Number of instruments	£'000	Plan year	Vesting date
Equity settled awards granted to Directors of Marshalls plc	193,939	945	2017	March 2021
Equity settled awards granted to other employees	187,634	929	2017	March 2021
Equity settled awards granted to Directors of Marshalls plc	223,795	1,172	2018	March 2022
Equity settled awards granted to other employees	254,988	1,351	2018	March 2022
Equity settled awards granted to Directors of Marshalls plc	161,586	1,261	2019	March 2023
Equity settled awards granted to other employees	206,495	1,603	2019	March 2023
Equity settled awards granted to Directors of Marshalls plc	—	—	2020	March 2024
Equity settled awards granted to other employees	—	—	2020	March 2024
	1,228,437	7,261		

Analysis of closing balance (deferred into shares):

	2020		2019	
	£'000	Shares	£'000	Shares
Equity settled awards granted to Directors of Marshalls plc	3,378	579,320	4,213	814,861
Equity settled awards granted to other employees	3,883	649,117	5,148	952,257
	7,261	1,228,437	9,361	1,767,118

	2020		2019	
	Value £'000	Number of options	Value £'000	Number of options
Outstanding at 1 January	9,361	1,767,118	8,240	2,166,851
Granted	—	—	3,189	388,240
Change in value of notional shares	(361)	—	1,602	195,052
Lapsed	(249)	(39,469)	(168)	(54,585)
Element released	(1,490)	(499,212)	(3,502)	(928,440)
Outstanding at 31 December	7,261	1,228,437	9,361	1,767,118

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

	2020 £'000	2019 £'000
Awards granted and total expense recognised as employee costs	3,679	3,846

Further details in relation to the Directors are set out in the Remuneration Committee Report on pages 70 to 89. Included in the total expense of £3,679,000 (2019: £3,846,000) is an amount of £1,980,000 (2019: £1,696,000) settled as interim cash payments under the terms of the Scheme and which has been included within wages and salaries in Note 3.

Employee Bonus Share Plan

A Bonus Share Plan was approved by shareholders in May 2015 under which a number of senior management employees were granted performance related bonuses with an element of this bonus being in the form of shares. The bonus performance criteria are the same as those applicable to the MIP awards. The bonus shares take the form of nil-cost options to acquire shares at the end of a 3-year vesting period from the date of grant, and vesting is conditional on continued employment at the end of the vesting period. Awards are made to participants following publication of the Group's year-end results. In addition, special Bonus Share Awards were granted to qualifying CPM employees following its acquisition on 19 October 2017 and to qualifying Edenhall employees following its acquisition on 11 December 2018. These took the form of nil-cost options to acquire Ordinary Shares in Marshalls plc at the end of a 3-year period. Awards outstanding at 31 December 2020 were over 420,633 shares (31 December 2019: 840,096). The total expenses recognised for the year arising from share-based payments were £931,000 (2019: £874,000).



20 Employee benefits continued

Sensitivity of the liability value to changes in the principal assumptions continued

All-employee Sharesave ("SAYE") scheme

On 5 October 2015 options were granted over up to 1,000,000 shares to employees who had subscribed to the SAYE scheme. The options were exercisable by relevant employees after a period of 3 years and during 2019 58,724 Ordinary Shares were issued to those employees whose options had reached maturity. During 2019 a further 18,741 shares were transferred from the Employee Benefit Trust.

Employee profit sharing scheme

At 31 December 2020 the scheme held 42,287 (2019: 42,287) Ordinary Shares in the Company.

21 Provisions

	Legal and regulatory provisions £'000
At 1 January 2019	7,935
Utilised in the year	(5,086)
Additional provisions made in the period	800
Unused amounts reversed during the period	(1,000)
At 31 December 2019	2,649
At 1 January 2020	2,649
Additional provisions made in the period	500
At 31 December 2020	3,149

Provisions comprise the estimated cost of settlement of certain legal and regulatory matters relating to the CPM business acquired on 19 October 2017 and the Edenhall business acquired on 11 December 2018, and reflect the Directors' estimate of the likely outflow from settlement of these matters.

22 Deferred taxation

Recognised deferred taxation assets and liabilities

	Assets		Liabilities	
	2020 £'000	2019 £'000	2020 £'000	2019 £'000
Property, plant and equipment	–	–	(12,506)	(11,321)
Intangible assets	–	–	(1,594)	(1,909)
Inventories	–	–	(499)	(337)
Employee benefits	–	–	(519)	(2,674)
Equity settled share-based payments	2,241	2,550	–	–
IFRS 16 transition adjustment	379	397	–	–
Other items	–	–	(1,948)	(2,066)
Tax assets/(liabilities)	2,620	2,947	(17,066)	(18,307)

The deferred taxation liability at 31 December 2020 has been calculated at 19 per cent 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 £519,000 (2019: £2,674,000) in relation to employee benefits is in respect of the net surplus for the defined benefit obligations of £2,726,000 (2019: £15,721,000) (Note 20) calculated at 19 per cent (2019: 17 per cent).

Deferred tax assets on capital losses and overseas trading losses have not been recognised due to uncertainty around the future use of the losses.

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 7).

The deferred tax liabilities disclosed in the year ended 31 December 2020 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

22 Deferred taxation continued

Movement in temporary differences

Year ended 31 December 2020

	1 January 2020 £'000	Recognised in income £'000	Recognised in other comprehensive income £'000	Recognised in statement of changes in equity £'000	31 December 2020 £'000
Property, plant and equipment	(11,321)	(1,185)	—	—	(12,506)
Intangible assets	(1,909)	315	—	—	(1,594)
Inventories	(337)	(162)	—	—	(499)
Employee benefits	(2,674)	48	2,107	—	(519)
Equity settled share-based payments	2,550	(205)	—	(104)	2,241
IFRS 16 transition adjustment	397	(18)	—	—	379
Other items	(2,066)	76	42	—	(1,948)
	(15,360)	(1,131)	2,149	(104)	(14,446)

Year ended 31 December 2019

	1 January 2019 £'000	Recognised in income £'000	Recognised in other comprehensive income £'000	Recognised in statement of changes in equity £'000	31 December 2019 £'000
Property, plant and equipment	(10,924)	(397)	—	—	(11,321)
Intangible assets	(1,985)	76	—	—	(1,909)
Inventories	(337)	—	—	—	(337)
Employee benefits	(2,299)	109	(484)	—	(2,674)
Equity settled share-based payments	1,406	(75)	—	1,219	2,550
IFRS 16 transition adjustment	—	(18)	—	415	397
Other items	(2,008)	—	(58)	—	(2,066)
	(16,147)	(305)	(542)	1,634	(15,360)

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 three years. It is not realistic to make any projection after a three-year period.

On 3 March 2021 the Chancellor of the Exchequer announced that legislation will be introduced in the Finance Bill 2021 to set the main rate of corporation tax at 25 per cent for Financial Year 2023. This change will impact on the Group's future tax charges and the deferred tax balances recognised. The Company has not yet been able to undertake a full analysis of the changes to accurately quantify the possible impact.

23 Capital and reserves

Called-up share capital

As at 31 December 2020, the authorised, issued and fully paid up Ordinary Share Capital was as follows:

	Authorised		Issued and paid up			
	2020 and 2019		2020 nominal value		2019 nominal value	
	Number	Value £'000	2020 Number	2020 nominal value £'000	2019 Number	2019 nominal value £'000
Ordinary Shares						
At 1 January	300,000,000	75,000	200,052,157	50,013	199,993,433	49,998
Issued in year	—	—	—	—	58,724	15
At 31 December	300,000,000	75,000	200,052,157	50,013	200,052,157	50,013

On 5 October 2015 options were granted up to 1,000,000 shares to employees who had subscribed to the SAYE scheme (Note 20). The options were exercisable by relevant employees after a period of three years and consequently during the year 31 December 2019 58,724 Ordinary Shares were issued to those employees whose options had reached maturity.

Consolidation reserve

On 8 July 2004 Marshall's 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 Marshall's Group plc (the previous holding company) was transferred to a consolidation reserve.



23 Capital and reserves continued

Hedging reserve

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

Dividends

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

	2020 £'000	2019 £'000
4.30 pence final dividend per Ordinary Share	8,542	—

24 Non-controlling interests

	2020 £'000	2019 £'000
At 1 January	723	1,094
Share of profit/(loss) for the year	188	(329)
Foreign currency transaction differences	39	(42)
At 31 December	950	723

25 Acquisition of subsidiary undertaking in previous accounting periods

On 11 December 2018, Marshall's Mono Limited acquired 100 per cent of the issued share capital of Edenhall Holdings Limited, a concrete brick manufacturer. The initial cash consideration paid to the vendors was £10,759,000 and, in addition, a further £1,000,000 was paid into an escrow account in relation to certain ongoing legal and regulatory matters identified during the course of due diligence carried out prior to concluding the acquisition. On 21 December 2020, all outstanding issues were agreed with the principal vendor shareholders and £853,000 was reimbursed from the amounts held in escrow. In addition, £134,000 was paid to certain former shareholders, with all escrow monies being released. The reimbursement asset of £1,000,000 that was recognised within other debtors was consequently distributed.

In addition, deferred consideration of £1,900,000 was also paid to the principal vendor shareholders on 21 December 2020, along with an agreed element of the outstanding potential additional consideration. Additional amounts remain payable to other former shareholders and employees, dependent on the achievement of performance targets in the periods post-acquisition. These post-acquisition performance periods are up to 3 years in duration and will be settled in cash on their payment date on achieving the relevant targets. The range of these additional payments are estimated to be between £nil and £1,800,000. The Group continues to record a creditor for these contingent payments, representing the fair value at the year-end date.

26 Analysis of net debt

	1 January 2020 £'000	Cash flow £'000	New leases £'000	Other changes* £'000	31 December 2020 £'000
Cash at bank and in hand	53,258	50,481	—	(32)	103,707
Debt due within 1 year	(20,000)	—	—	—	(20,000)
Debt due after 1 year	(51,274)	(57,891)	—	(1,117)	(110,282)
Lease liabilities	(41,960)	13,780	(20,811)	—	(48,991)
	(59,976)	6,370	(20,811)	(1,149)	(75,566)

* Other changes include foreign currency movements on cash and loan balances.

Reconciliation of net cash flow to movement in net debt

	2020 £'000	2019 £'000
Net increase in cash equivalents	50,481	7,649
Leases recognised on adoption of IFRS 16	—	(45,579)
Cash (inflow)/outflow from (increase)/decrease in bank borrowings	(57,891)	10,927
Cash outflow from lease repayments	13,780	12,723
New leases entered into	(20,811)	(8,163)
Effect of exchange rate fluctuations	(1,149)	(100)
Movement in net debt in the year	(15,590)	(22,543)
Net debt at 1 January	(59,976)	(37,433)
Net debt at 31 December	(75,566)	(59,976)

**27 Changes in liabilities arising from financing activities**

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's Consolidated Cash Flow Statement as cash flows from financing activities.

	1 January 2020 £'000	Financing cash flows* £'000	Non-cash changes		31 December 2020 £'000
			Other changes** £'000	IFRS 16 transition £'000	
Bank loans (Note 17)	(71,274)	(57,891)	(1,117)	—	(130,282)
Lease liabilities (Note 18)	(41,960)	13,780	(20,811)	—	(48,991)
Total liabilities from financing activities	(113,234)	(44,111)	(21,928)	—	(179,273)

	1 January 2019 £'000	Financing cash flows* £'000	Non-cash changes		31 December 2019 £'000
			Other changes** £'000	IFRS 16 transition £'000	
Bank overdrafts (Note 16)	(2,673)	2,673	—	—	—
Bank loans (Note 16)	(79,528)	8,254	—	—	(71,274)
Finance lease liabilities (Note 16)	(941)	—	—	941	—
Lease liabilities (Note 17)	—	12,723	(8,163)	(46,520)	(41,960)
Total liabilities from financing activities	(83,142)	23,650	(8,163)	(45,579)	(113,234)

* The cash flows from bank loans, overdrafts and other borrowings make up the net amount of proceeds from borrowings and repayments of borrowings in the Consolidated Cash Flow Statement.

** New leases and foreign currency movements.

28 Contingent liabilities

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

Beneficiary	Amount	Period	Purpose
M S Amlin Limited	£540,000	23 Dec 2011 to 30 Oct 2021	Employer's liability
HDI Global SE – UK	£300,000	8 Dec 2020 to 30 Oct 2021	Employer's liability
AIOL Nissay Dowa Insurance UK Limited	£400,000	8 Dec 2020 to 30 Oct 2021	Vehicle insurance
Aviva Insurance Limited	£100,000	19 Mar 2014 to 29 Oct 2021	Vehicle insurance
M S Amlin Limited	£340,000	30 Oct 2016 to 30 Oct 2021	Vehicle insurance

29 Related parties**Identity of related parties**

The Group has a related party relationship with its Directors.

Transactions with key management personnel

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

Directors of the Company and their immediate relatives control 0.2915 per cent (2019: 0.2428 per cent) of the voting shares of the Company.

In addition to their salaries and pension allowances, the Group also provides non-cash benefits to Directors. Further details in relation to Directors are disclosed in the Remuneration Committee Report on pages 70 to 89.



30 Accounting estimates and judgements

Management discussed with the Audit Committee the development, selection and disclosure of the Group's critical accounting policies and estimates and the application of these policies and estimates. The accounting policies are set out in Note 1 on pages 107 to 116. As stated in the accounting policies, revenue is disclosed net of rebates. Whilst the Directors do not regard the determination of accruals for rebates as a key area of estimation uncertainty, the estimation of appropriate accruals for rebates requires commercial assessment. Note 13 contains details of the Group's inventory. Whilst not considered by the Directors to be a key source of estimation uncertainty, the carrying value of the Group's finished goods inventory has been reviewed using commercial judgement with regard to the assessment of the appropriate level of provisioning against inventory obsolescence and for net realisable value. The Directors consider the following to be the only key source of estimation uncertainty:

- Note 20 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 20 on page 134.

The Directors have concluded that critical accounting judgements, apart from those involving estimations, have been made in relation to the following issue during the preparation of the Financial Statements:

- 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 determination of whether items merit treatment as exceptional is a matter of judgement. Operational restructuring costs and asset impairments comprise costs associated with restructuring programmes and the closure of certain sites, including redundancy payments and asset impairments.



Financial Statements

Parent Company Statement of Changes in Equity

for the year ended 31 December 2020

	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 2020	50,013	24,482	(1,391)	75,394	10,780	202,285	361,563
Total comprehensive expense for the year							
Loss for the financial year	–	–	–	–	–	(4,760)	(4,760)
Total comprehensive expense for the year	–	–	–	–	–	(4,760)	(4,760)
Transactions with owners, recorded directly in equity							
Contributions by and distributions to owners							
Share-based payments	–	–	–	–	2,199	799	2,998
Deferred tax on share-based payments	–	–	–	–	31	–	31
Dividends to equity shareholders	–	–	–	–	–	–	–
Shares issued	–	–	–	–	–	–	–
Purchase of own shares	–	–	(2,705)	–	–	–	(2,705)
Disposal of own shares	–	–	3,290	–	–	(3,290)	–
Total contributions by and distributions to owners	–	–	585	–	2,230	(2,491)	324
Total transactions with owners of the Company	–	–	585	–	2,230	(7,251)	(4,436)
At 31 December 2020	50,013	24,482	(806)	75,394	13,010	195,034	357,127

There were no items of other comprehensive income/(expense) in the year other than the profit for the financial year recorded above.

	Share capital £'000	Share premium account £'000	Own shares £'000	Capital redemption reserve £'000	Equity reserve £'000	Retained earnings £'000	Total equity £'000
Prior year							
At 1 January 2019	49,998	24,326	(888)	75,394	9,304	44,594	202,728
Total comprehensive income for the year							
Profit for the financial year	–	–	–	–	–	190,796	190,796
Total comprehensive income for the year	–	–	–	–	–	190,796	190,796
Transactions with owners, recorded directly in equity							
Contributions by and distributions to owners							
Share-based payments	–	–	–	–	2,013	1,011	3,024
Deferred tax on share-based payments	–	–	–	–	(537)	–	(537)
Dividends to equity shareholders	–	–	–	–	–	(33,203)	(33,203)
Shares issued	15	156	54	–	–	–	225
Purchase of own shares	–	–	(1,470)	–	–	–	(1,470)
Disposal of own shares	–	–	913	–	–	(913)	–
Total contributions by and distributions to owners	15	156	(503)	–	1,476	(33,105)	(31,961)
Total transactions with owners of the Company	15	156	(503)	–	1,476	157,691	158,835
At 31 December 2019	50,013	24,482	(1,391)	75,394	10,780	202,285	361,563

There were no items of other comprehensive income/(expense) in the year other than the loss for the financial year recorded above.



Company Balance Sheet

at 31 December 2020

	Notes	2020 £'000	2019 £'000
Fixed assets			
Investments	34	351,352	349,153
Deferred taxation assets	35	1,058	1,464
		352,410	350,617
Current assets			
Debtors	36	4,717	10,946
Net current assets		4,717	10,946
Net assets		357,127	361,563
Capital and reserves			
Called-up share capital	37	50,013	50,013
Share premium account		24,482	24,482
Own shares		(806)	(1,391)
Capital redemption reserve		75,394	75,394
Equity reserve		13,010	10,780
Profit and loss account		195,034	202,285
Equity shareholders' funds		357,127	361,563

The Company reported a loss for the financial year ended 31 December 2020 of £4,760,000 (2019: profit of £190,796,000).

Approved at a Directors' meeting on 11 March 2021.

On behalf of the Board:

Martyn Coffey
Chief Executive

Jack Clarke
Finance Director

The Notes on pages 142 to 147 form part of these Company Financial Statements.



Notes to the Company Financial Statements

31 Accounting policies

The following paragraphs summarise the main accounting policies of the Company, which have been applied consistently in dealing with items which are considered material in relation to the Company's Financial Statements. The Company is exempt from the requirement to give its own disclosures as the entity forms part of the Consolidated Financial Statements of Marshalls plc, which has included disclosures under IFRS 7 *"Financial Instruments: Disclosures"*.

(a) Authorisation of Financial Statements and Statement of Compliance with FRS 101

The Parent Company Financial Statements of Marshalls plc for the year ended 31 December 2020 were authorised for issue by the Board of Directors on 11 March 2021. Marshalls plc is a public limited company that is incorporated and domiciled and has its registered office in England and Wales. The Company's Ordinary Shares are publicly traded on the London Stock Exchange and the Company is not under the control of any single shareholder.

These Financial Statements were prepared in accordance with the historical cost basis of accounting and Financial Reporting Standard 101 *"Reduced Disclosure Framework"* (FRS 101).

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

(b) Basis of preparation

The Company has adopted FRS 101 from the UK Generally Accepted Accounting Practice for all periods presented.

The accounting policies which follow set out those policies which apply in preparing the Financial Statements for the year ended 31 December 2020.

In these Financial Statements, the Company has applied the exemptions available under FRS 101 in respect of the following disclosures:

- the requirements of paragraphs 45(b) and 46 – 52 of IFRS 2 *"Share-based Payments"*;
- the requirements of IFRS 7 *"Financial Instruments: Disclosures"*;
- the requirements of paragraphs 91 – 99 of IFRS 13 *"Fair Value Measurement"*;
- the requirement in paragraph 38 of IAS 1 *"Presentation of Financial Statements"* to present comparative information in respect of paragraph 79(a)(iv) of IAS 1;
- the requirements of paragraphs 10(d), 10(f), 16, 39(c), 40A, 40B, 40C, 40D, 111 and 134 – 136 of IAS 1 *"Presentation of Financial Statements"*;
- the requirements of IAS 7 *"Statement of Cash Flows"*;
- the requirements of paragraphs 30 and 31 of IAS 8 *"Accounting Policies, Changes in Accounting Estimates and Errors"*;
- the requirements of paragraph 17 of IAS 24 *"Related Party Disclosures"*;
- the requirements in IAS 24 *"Related Party Disclosures"* to disclose related party transactions entered into between 2 or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member; and
- the requirements of paragraphs 134(d) – 134(f) and 135(c) – 135(e) of IAS 36 *"Impairment of Assets"*.

The Company also intends to take advantage of these exemptions in the Financial Statements to be issued in the following year. Objections may be served in the Company by shareholders holding in aggregate 5 per cent or more of the total allocated shares in the Company. Where required, additional disclosures are given in the Consolidated Financial Statements.

(c) Investments

Fixed asset investments in subsidiaries and associates are shown at cost less provision for impairment. The Directors consider annually whether a provision against the value of investments on an individual basis is required.

(d) Share capital

(i) Share capital

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

(ii) Dividends

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

(e) Pension schemes

(i) Defined benefit scheme

The Company participates in a Group-wide pension scheme providing benefits based on final pensionable pay. The defined benefit section of the Scheme was closed to future service accrual in July 2006.

The assets of the Scheme are held separately from those of the Company. The defined benefit cost and contributions payable are borne by Marshalls Group Limited and, therefore, the defined benefit surplus or deficit is recorded in Marshalls Group Limited. Full details are provided in Note 20 on pages 131 to 135.

(ii) Defined contribution scheme

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



31 Accounting policies continued

(f) Share-based payment transactions

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

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

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

(g) Own shares held by the Employee Benefit Trust

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

(h) Trade and other payables

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

(i) Income tax

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

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

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

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

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

32 Operating costs

The audit fee for the Company was £45,000 (2019: £30,000). This is in respect of the audit of the Financial Statements. Fees paid to the Company's auditor for services other than the statutory audit of the Company are not disclosed in the Notes to the Company Financial Statements since the consolidated accounts of the Group are required to disclose non-audit fees on a consolidated basis.

Details of Directors' remuneration, share options, long-term incentive plans and Directors' pension entitlements are disclosed on pages 79 to 81 of the Remuneration Committee Report.

The average monthly number of employees of Marshalls plc (including Executive Directors) in the year ended 31 December 2020 was 175 (2019: 188). The personnel costs for the majority of these employees are borne by Marshalls Group Limited. The personnel costs charged to Marshalls plc in the year were £4,261,000 (2019: £4,214,000) in relation to 16 employees (2019: 17), including the Directors.



Notes to the Company Financial Statements continued

33 Ordinary dividends: equity shares

	2020		2019	
	Pence per share	£'000	Pence per share	£'000
2019 interim: paid 4 December 2019	—	—	4.70	9,323

Due to the impact of COVID-19, the Board withdrew the previously announced 2019 final and supplementary dividends. In addition, the Board did not propose an interim dividend during 2020.

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.

	2020 £'000	2019 £'000
2020 final: 4.30 pence per Ordinary Share	8,542	—

34 Investments

	£'000
At 1 January 2020	349,153
Additions	2,199
At 31 December 2020	351,352

Investments comprise shares in the subsidiary undertaking, Marshalls Group Limited. The Directors have considered the carrying value of the Company's investments and are satisfied that no provision is required.

The increase in the year of £2,199,000 represents adjustments to the number of shares expected to vest in respect of share-based payment awards granted to employees of Marshalls Group Limited.

Pursuant to Sections 409 and 410(2) of the Companies Act 2006, the subsidiary undertakings of Marshalls plc at 31 December 2020 are set out below.

Subsidiaries	Principal activities	Class of share	% ownership
Acraman (418) Limited	Non-trading	Ordinary/ preference	100
Alton Glasshouses Limited	Non-trading	Ordinary	100
Bollards Direct Limited	Non-trading	Ordinary	100
Capability Brown Garden Centres Limited	Non-trading	Ordinary	100
Capability Brown Landscaping Limited	Non-trading	Ordinary	100
Classical Flagstones Limited	Non-trading	Ordinary	100
CPM Group Limited	Non-trading	Ordinary	100
Dalestone Concrete Products Limited	Non-trading	Ordinary	100
Edenhall Limited	Non-trading	Ordinary	100
Edenhall Building Products Limited	Non-trading	Ordinary	100
Edenhall Concrete Limited	Non-trading	Ordinary	100
Edenhall Concrete Products Limited	Non-trading	Ordinary	100
Edenhall Holdings Limited	Non-trading	Ordinary/ preference	100
Edenhall Technologies Limited	Non-trading	Ordinary	100
Locharbriggs Sandstone Limited	Non-trading	Ordinary	100
Lloyds Quarries Limited	Non-trading	Ordinary	100
Marshalls Building Materials Limited	Non-trading	Ordinary	100
Marshalls Building Products Limited	Property management	Ordinary	100
Marshalls Concrete Products Limited	Non-trading	Ordinary	100
Marshalls Directors Limited	Non-trading	Ordinary	100
Marshalls Dormant No. 30 Limited	Non-trading	Ordinary	100
Marshalls Dormant No. 31 Limited	Non-trading	Ordinary	100
Marshalls EBT Limited*	Non-trading	Ordinary	100
Marshalls Estates Limited	Non-trading	Ordinary	100
Marshalls Group Limited*	Intermediate holding company	Ordinary	100
Marshalls Landscape Products Limited	Non-trading	Ordinary	100
Marshalls Landscape Products (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



34 Investments continued

Subsidiaries	Principal activities	Class of share	% ownership
Marshall's NV	Landscape Products manufacturer and supplier	Ordinary	66.7
Marshall's Profit Sharing Scheme Limited	Non-trading	Ordinary	100
Marshall's Properties Limited	Property management	Ordinary	100
Marshall's Register Limited	Non-trading	Ordinary	100
Marshall's Stone Products Limited	Non-trading	Ordinary	100
Marshall's Street Furniture Limited	Non-trading	Ordinary	100
Ollerton Limited	Non-trading	Ordinary	100
Panablok (UK) Limited	Non-trading	Ordinary	100
Paver Systems (Carluke) Limited	Non-trading	Ordinary	100
Paver Systems Limited	Non-trading	Ordinary	100
PD Edenhall Holdings Limited	Intermediate holding company	Ordinary	100
PD Edenhall Limited	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 Marshall's Import Export Company Limited	Sourcing and distribution of natural stone products	Ordinary	100

* Held by Marshall's plc. All others held by subsidiary undertakings.

Marshall's NV is largely dependent on the continued support of Marshall's Mono Limited, which has indicated that it intends to continue providing this support for the foreseeable future.

All the other companies excluding the ones below operate within the United Kingdom and are registered in England and Wales at the following address: Landscape House, Premier Way, Lowfields Business Park, Elland HX5 9HT. Marshall's NV is registered in Belgium, Xiamen Marshall's Import Export Company Limited is registered in China and Marshall's Landscape Products (North America) Inc. is registered in the USA. Paver Systems Limited, Paver Systems (Carluke) Limited and Locharbriggs Sandstone Limited are registered in Scotland. The respective registered offices are:

Paver Systems Limited and Paver Systems (Carluke) Limited
Roadmeetings, Carluke, Lanarkshire ML8 4QG

Locharbriggs Sandstone Limited
Locharbriggs, Dumfries, Dumfriesshire DG1 1QS

Marshall's Landscape Products (North America) Inc.
1209 Orange Street, Wilmington, County of New Castle,
Delaware 19801, USA

Marshall's NV
Nieuwstraat 4, 2840 Rumst, Belgium

Xiamen Marshall's Import Export Company Limited
12 A4, Xiangyu Building, No. 22, 4th Xiangxing Road,
Xiangyu Free Trade Zone, Xiamen, China



Notes to the Company Financial Statements continued

35 Deferred taxation

Recognised deferred taxation assets and liabilities

	Assets		Liabilities	
	2020 £'000	2019 £'000	2020 £'000	2019 £'000
Equity settled share-based payments	1,058	1,464	—	—

Movement in temporary differences

	1 January 2020 £'000	Recognised in income £'000	Recognised in other comprehensive income £'000	31 December 2020 £'000
Equity settled share-based payments	1,464	(375)	(31)	1,058

	1 January 2019 £'000	Recognised in income £'000	Recognised in other comprehensive income £'000	31 December 2019 £'000
Equity settled share-based payments	735	192	537	1,464

36 Debtors

	2020 £'000	2019 £'000
Corporation tax	890	1,348
Amounts owed from subsidiary undertakings	3,827	9,598
	4,717	10,946

No debtors were due after more than 1 year.

37 Capital and reserves

Called-up share capital

As at 31 December 2020, the authorised, issued and fully paid up Ordinary Share capital was as follows:

	Authorised		Issued and paid up			
	2020 and 2019		2020 nominal value		2019 nominal value	
	2020 Number	Value £'000	2020 Number	value £'000	2019 Number	value £'000
Ordinary						
At 1 January	300,000,000	75,000	200,052,157	50,013	199,993,433	49,998
Issued in the period	—	—	—	—	58,724	15
At 31 December	300,000,000	75,000	200,052,157	50,013	200,052,157	50,013

On 5 October 2015 options were granted up to 1,000,000 shares to employees who had subscribed to the SAYE scheme (Note 20). The options were exercisable by relevant employees after a period of three years and during 2019, 58,724 Ordinary Shares were issued to those employees whose options had reached maturity. During 2019 a further 18,741 shares were transferred from the Employee Benefit Trust.

Distributable reserves

The Company's distributable reserves amount to £195 million (2019: £202 million) at the end of the period. Upstream dividends of £197,145,000 were received during 2019 in order to increase the distributable reserves in Marshall's plc.

Equity reserve

The equity reserve represents the number of shares expected to vest in respect of share-based payment awards granted to employees of the Company.

38 Capital and leasing commitments

The Company had no capital or leasing commitments at 31 December 2020 or 31 December 2019.



39 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.

40 Contingent liabilities

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

Beneficiary	Amount	Period	Purpose
M S Amlin Limited	£540,000	23 Dec 2011 to 30 Oct 2021	Employer's liability
HDI Global SE – UK	£300,000	8 Dec 2020 to 30 Oct 2021	Employer's liability
AIOL Nissay Dowa Insurance UK Limited	£400,000	8 Dec 2020 to 30 Oct 2021	Vehicle insurance
Aviva Insurance Limited	£100,000	19 Mar 2014 to 29 Oct 2021	Vehicle insurance
M S Amlin Limited	£340,000	30 Oct 2016 to 30 Oct 2021	Vehicle insurance

41 Pension scheme

The Company is the sponsoring employer of the Marshalls plc pension scheme (the "Scheme") which is primarily a closed defined benefit scheme with a small defined contribution element (mainly AVCs). The assets of the Scheme are held in separately managed funds which are independent of the Group's finances.

Full details of the Scheme are provided in Note 20. The Company is unable to identify its share of the Scheme assets and liabilities on a consistent and reasonable basis.

The latest funding valuation of the defined benefit section of the Scheme was carried out as at 5 April 2018 and was updated for the purposes of the 31 December 2020 Financial Statements by a qualified independent actuary.

42 Accounting estimates and judgements

The preparation of the Financial Statements requires management to make judgements, estimates and assumptions. Although these judgements and estimates are based on management's best knowledge, actual results ultimately may differ from these estimates.

The key sources of estimation uncertainty that have a significant risk of causing material adjustments to the carrying value of assets and liabilities within the next financial year are disclosed below.

There are no critical accounting judgements or key sources of estimation uncertainty.

43 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 Statements

Financial History – Consolidated Group

	Year ended 31 December 2016 £'000	Year ended 31 December 2017 £'000	Year ended 31 December 2018 £'000	Year ended** 31 December 2019 £'000	Year ended** 31 December 2020 £'000
Consolidated Income Statement					
Revenue	396,922	430,194	490,988	541,832	469,454
Net operating costs	(349,283)	(376,755)	(426,154)	(468,151)	(442,272)
Operating profit (before operational restructuring costs and asset impairments)	47,639	53,439	64,834	73,681	27,182
Operational restructuring costs and asset impairments	—	—	—	—	(17,809)
Operating profit	47,639	53,439	64,834	73,681	9,373
Financial income and expenses (net)	(1,593)	(1,388)	(1,899)	(3,828)	(4,720)
Profit before tax (before operational restructuring costs and asset impairments)	46,046	52,051	62,935	69,853	22,462
Profit before tax	46,046	52,051	62,935	69,853	4,653
Income tax expense	(8,539)	(9,925)	(11,307)	(11,942)	(2,095)
Profit for the financial year	37,507	42,126	51,628	57,911	2,558
Profit for the year attributable to:					
Equity shareholders of the Parent	37,350	42,503	51,958	58,240	2,370
Non-controlling interests	157	(377)	(330)	(329)	188
	37,507	42,126	51,628	57,911	2,558
EBITA****	48,648	54,581	66,593	76,104	12,092
EBITA (before operational restructuring costs and asset impairments)	48,648	54,581	66,593	76,104	29,901
EBITDA****	60,794	67,895	80,792	103,875	45,298
EBITDA (before operational restructuring costs and asset impairments)	60,794	67,895	80,792	103,875	57,618
Basic earnings per share (pence)	18.95	21.52	26.29	29.36	1.19
Basic earnings per share (before operational restructuring costs and asset impairments)	18.95	21.52	26.29	29.36	8.60
Dividends per share (pence) – IFRS	9.65	12.20	14.80	16.70	—
Dividends per share (pence) – traditional	8.70	10.20	12.00	4.70	4.30
Dividends per share (pence) – supplementary	3.00	4.00	4.00	—	—
Year-end share price (pence)	292.5	454.9	464.8	860.0	748.5
Tax rate (%)	18.5	19.1	18.0	17.1	45.0

	2016 £'000	2017* £'000	2018* £'000	2019** £'000	2020** £'000
Consolidated Balance Sheet					
Non-current assets	193,393	248,055	302,785	350,035	324,416
Current assets	139,685	166,372	210,776	212,534	290,013
Total assets	333,078	414,427	513,561	562,569	614,429
Current liabilities	(87,068)	(109,507)	(141,190)	(162,349)	(157,158)
Non-current liabilities	(28,889)	(67,293)	(105,656)	(104,454)	(169,423)
Net assets	217,121	237,627	266,715	295,766	287,848
Net borrowings	5,413	(24,297)	(37,433)	(59,976)	(75,566)
Gearing ratio	(2.5%)	10.2%	14.0%	20.3%	26.3%

* The comparatives have been restated as a result of a reassessment of the fair value of assets and liabilities acquired.

** The Group applied IFRS 16 "Leases" with effect from 1 January 2019 and consequently the information disclosed above includes the impact of adoption.

*** Before operational restructuring costs and asset impairments.

**** EBITA is defined as earnings before interest, tax and amortisation of intangibles. EBITDA is defined as earnings before interest, tax and amortisation of intangibles and depreciation.



Shareholder Information

Shareholder analysis at 31 December 2020

Size of shareholding	Number of shareholders	%	Number of Ordinary Shares	%
1 to 500	1,897	47.43	276,380	0.14
501 to 1,000	497	12.43	376,083	0.19
1,001 to 2,500	548	13.70	928,397	0.46
2,501 to 5,000	350	8.75	1,248,945	0.62
5,001 to 10,000	234	5.85	1,661,356	0.83
10,001 to 25,000	152	3.80	2,380,309	1.19
25,001 to 100,000	135	3.38	6,915,253	3.46
100,001 to 250,000	57	1.43	9,282,193	4.64
250,001 to 500,000	41	1.03	14,882,181	7.44
500,001 and above	88	2.20	162,101,060	81.03
	3,999	100.00	200,052,157	100.00

Financial calendar

Preliminary announcement of results for the year ended 31 December 2020	Announced	11 March 2021
Final dividend for the year ended 31 December 2020	Payable	1 July 2021
Half-yearly results for the year ending 31 December 2021	Announcement	19 August 2021
Half-yearly dividend for the year ending 31 December 2021	Payable	1 December 2021
Results for the year ending 31 December 2021	Announcement	Early March 2022

Advisers

Stockbrokers

Numis Securities Limited
Peel Hunt

Auditor

Deloitte LLP

Legal advisers

Herbert Smith Freehills LLP
Pinsent Masons LLP

Financial adviser

N M Rothschild & Sons Limited

Bankers

HSBC Bank plc
Lloyds Bank plc
Royal Bank of Scotland plc

Registrars

Computershare Investor Services PLC
The Pavilions
Bridgwater Road
Bristol BS99 6ZZ

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