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## ANNUAL REPORT 2008

THURSDAY



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09/07/2009

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COMPANIES HOUSE

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Marshalls

*The Marshalls Garden That Kids Really Want, RHS Chelsea Flower Show 2008*

Marshalls plc, proud sponsor of the  
RHS Chelsea Flower Show 2007-2009

## Financial Highlights

Results before works closure  
costs and asset impairments:

- Revenue £378.1m
- Operating profit £30.6m
- Profit before tax £22.5m
- Basic EPS 11.61p
- Dividends declared  
and paid 13.85p
- Final dividend  
recommended 1.45p

Reported results:

- Operating profit £3.6m
- Loss before tax £(4.5)m
- Basic EPS (4.46)p

## Corporate Objectives

Marshalls' vision is to be the supplier of choice to the landscape architect and contractor for architectural landscaping and to the consumer for garden and driveway improvement projects.

Customers are at the centre of our business. Marshalls supplies its customers with innovatively designed ranges of the highest quality landscape and walling products and provides outstanding levels of customer service in our chosen markets.

Marshalls is committed to maintaining and developing its market leading position. At the same time the Group is committed to conducting business in a manner which achieves sustainable growth whilst incorporating and demonstrating a high degree of social responsibility.

Marshalls objective is to deliver superior rates of return to its shareholders over the longer term and to provide opportunities and reward for its employees.

## Cautionary Statement

Please read the full cautionary statement which can be found on page 37.

*Elemental Paviers, Charcoal*

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# Chairman's Statement

## Managing risk – maintaining the future

2008 will go down in the annals of UK corporate history as one of the most challenging of years.

In those circumstances, the profit before tax of £22.5 million (before works closure costs and asset impairments) represented a commendable effort by all concerned. Of greater importance is the strength of the balance sheet. Whilst year end borrowings increased slightly to £111.3 million, overall debt levels are satisfactory and well within our funding capacity.

We have achieved these results at the cost of some painful decisions, closing plants at Sawley, Cannock and Hambrook which were charged in 2008 and a further closure at Llay in early 2009. We have also reduced staff levels in all functions across the Group. In total we have finished the year reducing, or having plans to reduce, employment by 400 people, some 14 per cent of our workforce.

We have taken these decisions in order to ensure that the Group can weather the remaining period of economic downturn whilst retaining a sound financial base. We took action early, commencing in September 2007, and will continue to face up to difficult decisions. Our cash conservation will entail minimising capital expenditure in the forthcoming period; but we will be well served by our progressive attitude towards investment in the good years. We are a well invested Group.

We will also continue to invest in the future of our business. We value our people, whilst acknowledging that we have to part with many loyal and committed colleagues, and will continue to invest in their development. We have also continued to invest selectively in assets in 2008, investing in further mineral deposits in both South Wales and the Cotswolds.

We are mindful of our responsibility to our shareholders, many of whom have held shares for many years, and to whom the dividend is important. Whilst we have not felt able to maintain historic levels of dividend, which have increased at an average of 9.3 per cent per annum over the past 14 years, we are proposing to pay a final dividend of 1.45 pence, making a total for the full year of 6.00 pence. The Board expect this to form the basis of a sustainable policy through these difficult times.

No-one can predict the length or depth of the current economic malaise. The prospects for 2009 are for a further deterioration in trading conditions. We will monitor business trends closely, ensuring that we continue to manage and mitigate the risks to our business, but also being alert to any signs of upturn so that we may be in the vanguard of recovery.

In paying the traditional tribute to the efforts of all of our employees, I am especially mindful of the efforts of those no longer in our employ, but whose efforts were equally valued by their colleagues, and whose contribution will be missed.

**Mike Davies**  
Chairman  
6 March 2009

*Classical White Limestone*

# Operating and Financial Review

## Business profile

Marshalls is a market focussed UK Group combining inspirational design and innovative products and services to aid the transformation of Britain's patios, driveways and urban and commercial landscapes.

The Group manufactures and supplies landscape, driveway and garden products from a range of materials including concrete, natural stone, iron, steel, wood, glass and polyurethane, for Domestic and Public Sector and Commercial use. The home improvement and home building markets are the largest users of the Group's products and we supply goods ranging from paving and walling to greenhouses and garages. Public Sector and Commercial customers use Marshalls' products to transform landscapes including retail, industrial and new build as well as repair and maintenance projects.

Marshalls' customers are the large builders' merchant groups, independent builders' merchants, garden centres, contractors and Local Authorities and Domestic consumers. Products are distributed from a national network of manufacturing and Service Centres either to customers' depots or, at their request, direct to site.

## Short term priorities

In the present uncertain economic environment the Group continues to focus on cash management, cost reduction and sales opportunities. During the current global economic downturn, where uncertainty predominates, the Group is focussed on creating its own certainty by managing short term operational risk and adapting the financial structure of the business for the medium term. The Group continues to focus sales effort on market sectors where activity is more robust, accelerating cost reduction initiatives and conserving cash through reduced capital expenditure and strict control of working capital. The Group continues to invest in innovation to reduce its operating costs and extend its competitive advantage through new product development and service solutions.

The Operating and Financial Review covers in detail the decisive actions that the Group is taking to adapt

the business for lower levels of activity in the shorter term whilst retaining the capability to respond quickly to additional demand in the medium term. Further actions which are designed to reduce borrowings and provide financial flexibility are also explained in the Operating and Financial Review.

## Long Term Strategy and Business Objectives

Although the current focus is on managing risk and the short term priorities, the Group has continued to keep a clear view of its long term strategy. The objective is to emerge from the current economic downturn in a stronger position and consequently, the longer term strategic objectives which are set out below, remain the Group's cornerstone objectives for the longer term. It remains important to have a clear awareness of these objectives.

### Long term corporate objectives

Marshalls long term corporate objectives remain:

1. Revenue growth of 7 per cent or more based on a compound annual growth rate ("CAGR") over a three year period;
2. Annual earnings per share growth of at least 3 per cent above the retail price index and a target of 6 per cent on a CAGR basis, over a three year period;
3. Dividend policy where dividends will move in line with medium term earnings growth; and
4. Return on capital employed of 20 per cent per annum.

### Long term strategy

The strategy to achieve these objectives is:

1. To deliver sustainable shareholder value by continuing to develop, innovate and improve in our unique sourcing, manufacturing and distribution network.

This is achieved by continually investing in market and brand development, developing long term customer relationships, continually innovating and introducing new products and services to meet the needs of consumers and installers that have been identified through extensive market research, investing in manufacturing technology to improve the quality of our products and to enable us to operate more effectively, and reducing costs wherever possible. The business has high quality, timely management information and analysis and uses this to focus on areas for improvement.

2. To create the "pull through" by investing in sales and marketing direct to the consumer to drive more sales through the quality approved installers and distributors of our products.

The Group has a long term commitment to the Domestic market and continues to strengthen relationships with approved installers whilst increasing investment in lead generation and sales and marketing support. Having already established a unique regional distribution and manufacturing network and having built a register of approved quality installers, the creation of "pull through demand" by investing in marketing directly to the consumer remains a key long term objective.

3. To develop further an integrated product offer for the Public Sector and Commercial market by continually improving the range of products we offer.

The Public Sector and Commercial market requires a range of integrated products that deliver technical performance and the required appearance. The Group's continued objective is to be responsive to the requirements of all clients, architects and contractors and to be the "best in class" for technical and design support, product innovation, product quality and customer service.

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

## Strategic Key Performance Indicators ("KPIs")

Performance is monitored using a full suite of KPIs. The Directors have previously identified the six measures below as the strategic KPIs. The first two are measured on a CAGR basis over a three year period. In addition to the strategic KPIs there are KPIs for each area of the business. A number of these are included later in the individual sections of this review.

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Target	
Revenue growth:	7 per cent per annum
Earnings per share growth:	RPI + 6 per cent per annum
Return on capital employed:	20 per cent
Cash flow:*	Detailed forecast
Customer service index:**	95 per cent
Health & Safety reduction in reportable incidents:	10 per cent per annum

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\* Cash performance targets have been established for the purpose of Directors' Performance Share Awards, details of which are set out on page 44.

\*\* The index combines measures of product availability, on time delivery performance and administrative and delivery accuracy.

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The results achieved on each of these measures are set out in the appropriate sections below. Additional long term strategic KPIs are also being developed to cover the key areas of Energy Management and Environmental Sustainability. This recognises the Group's emphasis on these key areas of future development.

These long term strategic KPIs are supported by a range of other KPIs designed to ensure that the Group maintains focus on its short term priorities of cash management and cost reduction. Working capital management and debt reduction strategies are supported by other KPIs that are closely monitored across the Group.

## Review of the Operations

### Markets

The Construction Products Association ("CPA") has stated that the construction industry is experiencing its biggest decline since the early 1980s with private housing starts predicted to fall to levels not seen since the 1950s. The only sectors where construction output is forecast to increase are linked to public spending. The CPA estimates that overall construction output has grown by only 1.0 per cent during 2008, and that declines of 8.5 per cent and 4.0 per cent are expected for 2009 and 2010 respectively. Within the Public

## Operating and Financial Review (continued)

Sector and Commercial market the CPA estimates that Other New Work, a proxy for demand, was up by 7.2 per cent in 2008, but predicts that falls of 4.8 per cent and 5.0 per cent will be experienced in 2009 and 2010. In the Domestic market the CPA estimates that Private Housing Repair, Maintenance and Improvement expenditure, a proxy for Domestic demand, was down 0.4 per cent in 2008, but that falls of 15.0 per cent and 5.3 per cent will occur in 2009 and 2010 respectively.

Whilst not faring as poorly as the new build housing sector, it is clear that the Group's main "Repair, Maintenance and Improvement" markets are set for a period of lower activity prior to the expected recovery in 2010/2011. Despite this economic backdrop there are certain key factors concerning the Group's particular customer base that remain positive influences. For instance, the target customer groups for installed patios and driveways have actually been quite robust with customers typically being older, with higher earnings and savings and with greater equity in their property. The specific factors influencing both the Group's Public Sector and Commercial and Domestic markets are explained further below.

### Trading Summary

Marshall's revenue at £378.1 million (2007: £402.9 million) was down 6.2 per cent compared with the prior year. Acquisitions added £1.4 million to revenue and "like for like" revenue was lower by £26.2 million.

The Public Sector and Commercial market now represents 59 per cent of Group revenue (2007: 55 per cent). This market delivered good growth in the first half of 2008 but declined from September 2008. A lack of liquidity hit the whole market and resulted in immediate contract delays and cancellations. Generally, Public Sector demand remains stronger than Industrial and Commercial but the recent growing proportion of private finance initiatives in the Public Sector means that it has also been affected. Like for like sales were 1 per cent ahead of 2007 with volumes down 4 per cent and sales price and mix stronger by 5 per cent.

The Domestic market comprises the remaining 41 per cent of revenue (2007: 45 per cent). Consumer confidence is low but the market for installed patios and driveways remains stronger than that for "new

build" and with the target customer groups covering 8.9 million homes it continues to be a far bigger potential market. Like for like revenue was down 15 per cent compared with 2007, with volumes down 20 per cent and sales price and mix, to recover increases in input costs, stronger by 5 per cent.

### Manufacturing and Distribution

The Marshall's operating strategy is to combine regional manufacturing and distribution sites, known as Service Centres, with national manufacturing works which produce the newly introduced and specialist products that have not reached the commercial volumes to justify regional manufacture. The same capital equipment produces products for both the Domestic market and the Public Sector and Commercial market. Marshall's geographical spread is unique in the industry and ensures that Marshall's has the lowest cost to market.

Marshall's has reduced its cost base and improved efficiency. The Group concluded, following a review of the medium term manufacturing strategy, that four operating sites could be closed permanently. The sites at Sawley in the East Midlands and Cannock in the West Midlands were closed in July 2008 and in the last quarter the Group have announced the closure of the works at Hambrook on the South Coast and Llay in North Wales. The financial impact of these closures is explained further on page 14. Productivity gains created by recent investment in automation have meant that when demand improves it will be delivered from new and more efficient plants working harder with the remaining operating sites providing significant additional capacity. The Group continues to position its manufacturing capability to be leaner and fitter when demand recovers.

Customer service remains a high priority area. The KPI covers product availability, accuracy and timeliness of deliveries as well as administrative accuracy. The Group's industry leading standards remained high in 2008 and the combined customer service measure was 97 per cent (2007: 97 per cent).



Additional action to reduce cost has included the consolidation of manufacturing and administration in the Street Furniture and Stone Walling businesses and the overhead base has been adjusted to reflect the reduced sales volumes. The final commissioning of five new ready to use mortar plants has also been delayed pending an improvement in the "new build" housing market. The total reduction in numbers employed as a result of these capacity reduction initiatives (including the works closures referred to above) has been approximately 400, representing 14 per cent of the Group total. The Group continues to balance the need for significant reductions in the cost base with the desire to continue to innovate, to drive long term growth.

The Group continues to invest to improve its productivity, to make the workplace safer and to reduce the environmental impact of its operations. However, the Group's plants are modern and well invested and this is enabling capital expenditure to be reduced significantly for at least two years without any noticeable impact on the effectiveness of the business. Capital investment in 2008 totalled £22.0 million (2007: £31.7 million). This compares to a depreciation charge of £21.4 million (2007: £21.0 million). Recent investment has enabled capital expenditure to be reduced significantly and this can extend for at least two years without any noticeable impact on the effectiveness of the business. The Group will continue to invest selectively in innovation to deliver new products and improvement projects with a short payback period and will focus on maximising the benefit of past investment, particularly in the natural stone walling and aggregate businesses. Given the focus on increased cash generation and the significant investment in productivity improvements over the past few years, we anticipate that total capital expenditure in 2009 will be approximately half of the 2008 level and broadly half of the expected depreciation charge.

The Group continues to focus on the opportunity to realise cash from a small number of surplus properties, including the sites that have recently been closed. The timing of sales continues to be

dependent on suitable planning permissions being obtained and the position has also been made considerably more difficult by the depressed state of the property market. During 2008 £11.5 million has been realised from property disposals and the Group's property portfolio is under constant review in order to identify further opportunities. The cash raised from the sale of surplus assets is being used to reduce debt.

## Sustainability

The Group continues to focus on sustainability and this remains an integral part of the Marshalls' culture. This includes the elimination of waste and the better use of resources and, consequently, is very much aligned with the Group's commercial objectives. Marshalls' sustainability plan sets out to deliver benefit to the environment, recognise social progress and generate economic growth. There is a Group wide strategy of implementing and operating to independently audited and accredited systems for product quality, environmental management and health and safety. During 2008 the Group was placed second in the Business in the Community's "John Lewis and Waitrose Supply Chain Award" for its "Indian Sandstone and the Ethical Supply Chain" entry.

The Group continues to source natural stone from India and China. Marshalls was the first company from the UK Building Materials sector to be a member of the Ethical Trading Initiative ("ETI"), an alliance of companies, trade unions and non-profit organisations that aims to promote respect for the rights of workers worldwide. As a member of ETI, Marshalls has a programme in place to assess working conditions in suppliers' workplaces. These suppliers are regularly and independently audited on the ETI nine point base code, which covers working conditions in the supply chain, to ensure compliance with that code. The Group's Indian stone supplier has successfully demonstrated compliance with the ETI base code.

The Group has also become the UK's first heavyside materials manufacturer to be accepted into the prestigious UN Global Compact, which is

## Operating and Financial Review (continued)

the world's largest corporate citizenship and sustainability initiative. In March 2009, the Group won the Sustain Magazine International Prize Award for Trade for its work to improve standards and accountability throughout the supply chain.

### Domestic

Marshalls is the market leader in the domestic driveway and patio markets and has led the development of the consumer landscape products market over an extended period. The Group's Domestic strategy continues to be to create "pull through" demand by investing in sales and marketing direct to the consumer to drive more sales through the quality approved installers. The objective is to improve the product mix, continually develop the Marshalls brand and deliver a level of service that is "second to none." Quality installers remain active and are seeing trends towards older customers and a higher proportion of cash transactions with long term residents rather than new home purchasers. This suggests a shift to the "Don't Move, Improve" category and that there is a greater resilience to the downturn in the "Do it for me" market than "new build." The Group sees the current market

conditions as an opportunity to strengthen relationships with its approved quality installers. The Marshalls Register of approved installers, which are recommended to the consumer, comprises over 1,500 installation teams around the country whose work is constantly vetted. Sales resource in this area has been increased and the Group continues to invest in lead generation, sales training and marketing support. Installer order books at the end of February 2009 were 5.6 weeks (October 2008: 6.4 weeks; February 2008: 8.4 weeks).

In response to market conditions the Group has reduced its investment in Managed Installations and Display Centres. Currently seven Display Centres are in the process of being closed and the remaining five Lead Generation Centres will be staffed by employees from adjacent garden centres.

In 2008 Marshalls sponsored the Royal Horticultural Society ("RHS") Chelsea Flower Show for the second of its three year sponsorship period. This continued to provide excellent media coverage and increase brand awareness. Installers are particularly encouraged by the increased visibility of the Marshalls brand on mainstream television and Marshalls is increasingly synonymous with garden and driveway makeovers.

The Group is also extending its relationships with distributors and has already extended supply agreements with a number of its largest ones. The objective is to ensure that all parts of the process are focussed on maximising sales at a time when distributors are reducing stock levels and when the Group's industry leading product availability and on time delivery performance will provide increasing advantages.

*Regent Paving, Buff*

## Public Sector and Commercial

Marshall's is also a market leader for the supply of a wide range of natural stone, concrete and fabricated products to the Public Sector and Commercial market including paving, kerbs, edging, surface drainage and street furniture. This market includes PFI expenditure on schools and hospitals. The aim is to deliver products that are attractive to look at and are also practical in use and to install. Marshall's have a portfolio of products that can be combined to create an attractive landscaped area and our technical expertise is an important part of our pre and post sales service.

An important part of Marshall's strategy is the development of an integrated product offering for the Public Sector and Commercial market. In response to market demand, and working closely with architects, designers and contractors, the Group continues to offer fully integrated solutions that combine natural stone and concrete paving, linear drainage, bollards, seating and attractively designed lighting. The Group has experienced technical and sales teams focussed on the key growth areas and by working with clients, architects and contractors they are able to provide a unique overview of the project and offer a complete solution comprising a full suite of products. This strategy is delivering good growth in the Street Furniture, natural stone paving and sustainable urban drainage businesses. The Group is continuing to improve its administrative and computer systems and further integration of all recently acquired street furniture businesses will deliver further synergies and provide a solid platform for future organic growth.

The Olympics projects are gathering momentum and the Group has already provided products for surrounding infrastructure developments. The Group continues to have reasonable visibility of future demand, despite the impact of recent project delays and cancellations, based on the predicted time lag between awarding of contracts and the requirement for landscape products. Recent data suggests a reduction in underlying volume of approximately 15 per cent

in the next twelve months although this will be offset by price increases.

The Group continues to seek opportunities to expand reserves and geographical coverage in natural stone and during 2008 the Group completed the acquisition of the Gwrhyd Specialist Stone Quarry business in South Wales which owns a high quality reserve of pennant stone and supplies the Domestic market. This acquisition offers excellent synergy opportunities by increasing the product range of walling and paving products into the Public Sector and Commercial market. The Group also acquired a 25 per cent interest in two Cotswold limestone quarry reserves. In each case the Group has long term supply agreements for the extraction of block stone for paving and walling products which widen the range of colours that can be offered to customers. The blocks will be processed through existing facilities, further benefiting efficiency. In total, the cash outflow in respect of these acquisitions will be £7 million, of which £6.1 million has been in 2008. With no additional cash outflow, the Group has also acquired the mineral lease and rights to extract good quality limestone aggregate from a consented reserve in South Wales. The Group recognises that, even in the current economic conditions, it is important to look to the medium and long term and to continue investing in such opportunities as they arise.

During the year the Group further increased its total mineral reserves comprising block stone for paving, walling stone and crushed aggregates and this is set out in more detail in the table below.

### Mineral Reserves

	Reserves		Reserves	
	tonnes (m)	years	tonnes (m)	years
	2008	2008	2007	2007
Block stone	9.0	66.0	8.5	72.1
Aggregates	50.8	25.0	48.1	22.2

#### Notes:

1. Reserves means fully consented and available for extraction
2. Years means number of years available at current extraction rates

## Operating and Financial Review (continued)

### Organisation

The Group's organisational structure incorporates specialist businesses such as those manufacturing Street Furniture products. The structure also enables operationally independent businesses to focus on the development of their own unique brand and position in the market place.

### Corporate Responsibility

Marshalls has an experienced, flexible and well motivated workforce and is committed to developing its full potential. Many of the current management team have first hand experience of past economic downturns. There is a wide range of in house and external training programmes with an emphasis towards "on the job" training. The Group continues to work closely with Ashridge, an international leader in tailored executive education, to develop the knowledge, skills and practices of its management team in order to enhance leadership potential and to facilitate succession planning.

Marshalls places special emphasis on Corporate Responsibility and considers that this is very much aligned with the sustainable and economic growth objectives which are for the benefit of all stakeholders. The Group continues to work closely and in conjunction with the communities in which it operates to deliver constructive projects in a number of areas such as schools, sports associations and government backed incentives.

Further details relating to social and community issues, including employees, health and safety, the policies of the Group and the effectiveness of these policies, are set out in the Corporate Responsibility Report on pages 25 to 27.

### Research and Development

Marshalls has a world class Manufacturing Innovation and Development team, staffed by high calibre engineers and technicians, which delivers competitive advantage through machinery design and installation. Product availability and on time delivery is extremely high and this has enabled distribution costs to be

controlled despite pressures from legislation, congestion and rising fuel prices. The Group is continually striving to improve the flexibility and effectiveness of product manufacture and is at the forefront of technical research and development.

Innovation in all areas of the business over an extended period has been a key element of the Group's success and significant resources will continue to be invested in Research and Development in the future.

*Geo Assymetric Parklight, Urbis Centre, Manchester*

## Financial History

<b>Revenue (£'m)</b>				
	378.1	402.9	378.1	
	359.3			
	328.3			

2004      2005      2006      2007      2008

### Operating profit (£'m)

47.0		47.8	48.8	
	44.4			
				30.6*

2004      2005      2006      2007      2008

### Basic earnings per share (pence)

		20.34	21.28	
18.07	18.55			
				11.61*

2004      2005      2006      2007      2008

\*Operating profit and basic earnings per share are disclosed before works closure costs and asset impairments for 2008.

As at 31 December 2008 the Company's share price was 90.0 pence per share. When dividends are included this gives a total shareholder return ("TSR") of -53.6 per cent over a five year performance period. A performance graph has been disclosed on page 53 where the Group's TSR is compared with the FTSE 250 Index.

## Financial Review of 2008

	2008 £'m	2007 £'m	Change %
Revenue	378.1	402.9	-6.2
Operating profit (before works closure costs and asset impairments)	30.6	48.8	-37.3
Works closure costs and asset impairments	(27.0)	-	
Operating profit	3.6	48.8	
Financing charges (net)	(8.1)	(6.7)	
Loss/profit before tax	(4.5)	42.1	
Tax	(1.7)	(11.8)	
Loss/profit after tax	(6.2)	30.3	
Basic earnings per share - before works closure costs and asset impairments (pence)	11.61	21.28	-45.4

Revenue for the year ended 31 December 2008 fell by 6.2 per cent to £378.1 million (2007: £402.9 million).

### Underlying profit

	2008 £'m	2007 £'m	Change %
Operating profit: underlying	33.9	51.1	-33.7
Strategic business initiatives:			
Domestic	(4.1)	(3.6)	
Commercial	(1.4)	(0.7)	
Property/other	2.2	2.0	
Operating profit: before works closure costs and asset impairments	30.6	48.8	-37.3
Works closure costs	(17.7)	-	
Asset impairments	(9.3)	-	
Operating profit: reported	3.6	48.8	

Operating profit, before works closure costs and asset impairments, was £30.6 million (2007: £48.8 million). After works closure costs and asset impairments of £27.0 million, reported operating profit was £3.6 million (2007: £48.8 million).

The net effect of investment in business development initiatives and other one-off items in the year was a net charge against operating profit of £3.3 million (2007: £2.3 million), giving an underlying operating profit of £33.9 million (2007: £51.1 million) a decrease of 33.7 per cent.

## Operating and Financial Review (continued)

Within this net charge the Group has expensed £5.5 million (2007: £4.3 million) in relation to business developments including £4.1 million (2007: £3.6 million) on consumer initiatives. These initiatives included £1.6 million relating to further marketing costs (including the RHS Chelsea Flower Show) to support the development of the Marshalls brand, and investment to support and enhance the registered approved installer scheme. Business development initiatives in the Public Sector and Commercial market have given rise to revenue expenditure of £1.4 million during the year. The Group also generated a profit of £2.2 million from the sale of surplus properties and other assets.

The charge for works closure costs and further capacity reductions in 2008 is £17.7 million. This charge includes the site closures at Cannock, Sawley and Hambrook and the cost of reducing the scale of the Managed Installations and Display Centre part of the Consumer business. The cash outflow from this

charge will be £11.0 million, of which £6.0 million was incurred in 2008, comprising redundancy, site decommissioning, plant and asset relocations. The remaining charge of £6.7 million relates to non-cash plant and asset write offs.

The works closure cost for Llay is expected to be around £5 million, of which £3 million will be non cash asset write offs, and this will be charged in 2009. The consultation process with employees and their representatives involved the consideration of alternatives to closure and was completed in late January 2009.

This programme leaves the Group with well invested modern plants which have sufficient capacity to meet medium term demand requirements efficiently.

The cost of closing the Managed Installation business, in its current form, was £5.1 million, and this charge is included within works closure costs. This business was directed at the consumer market and, given the current cost structure relative to the market level of expected consumer activity, it was considered appropriate to reduce this cost. Initiatives on lead generation and the support of the approved installers are being progressed in a lower cost way.

The closures are expected to reduce fixed costs by around £8 million in a full year of which the action taken in July 2008 gave a benefit of approximately £1.5 million in 2008. In addition to cost savings the works closures have enabled the Group to realise cash from inventories. In 2008 £6 million of inventory was released from the Cannock and Sawley closures and a further cash release of approximately £4 million is expected in 2009 from the further actions taken and the further works closures. Overall the release of cash from the reduction of inventory and the sale of the properties vacated are expected to exceed the cash cost of the action taken to close the four operating sites.

*Geo Lightstacks, Regents Place, London*

Asset impairments of £9.3 million include the full amount of goodwill that was being carried in the Group balance sheet in respect of the Premier Mortars, Compton and Scenic Blue businesses. Premier Mortars supplies ready to use mortar to the house building market, Compton supplies pre-fabricated garages to the consumer and Scenic Blue was part of the Managed Installations initiative. These businesses have been particularly affected by the deterioration in current market conditions and the short term outlook remains challenging.

Basic earnings per share, before works closure costs and asset impairments, was 11.61 (2007: 21.28) pence per share.

#### Margin Analysis

	Movement in		
	Revenue	Operating profit	Margin
	£'m	£'m	%
2007: underlying	402.9	51.1	12.7
Organic	(46.2)	(15.2)	(2.6)
Sales price and cost inflation	20.0	(2.0)	(1.1)
Acquisition	1.4	-	-
2008: underlying	<b>378.1</b>	<b>33.9</b>	<b>9.0</b>

Cost increases of around £22 million were incurred in 2008 and around £20 million was recovered through sales price increases. The under recovery is largely due to significant, unanticipated increases in diesel fuel and cement costs. Overall, these factors reduced margins by approximately 1.1 per cent. The main cause of the lower margin in 2008 is the decline in sales volumes and the impact of the Group's relatively high operational gearing. This same factor will enable margins to increase once the economy begins to recover. The underlying operating profit margin was 9.0 per cent (2007: 12.7 per cent).



## Operating and Financial Review (continued)

*Light Beige Granite, Pier Head, Liverpool*

### Operating Performance

#### Analysis of revenue by market

	2008	2007	Change
	£'m	£'m	%
Market sector			
Domestic	156.4	183.2	-14.6
Public Sector and Commercial	221.7	219.7	0.9
Total (including acquisitions)	378.1	402.9	-6.2
Overall percentage:			
Domestic	41.4%	45.5%	
Public Sector and Commercial	58.6%	54.5%	

The Public Sector and Commercial market now comprises approximately 59 per cent of the Group revenue. Like for like revenue showed an increase of 0.9 per cent in the year. Sales to the Domestic market fell by 14.6 per cent.

#### Financial KPIs

The key financial KPIs were set out on page 7. These financial KPIs were established in January 2006. The current performance against these targets, since that date, can be set out as follows:

- Revenue growth

Against a target of 7 per cent per annum the Group has achieved a CAGR of 1.7 per cent since 1 January 2006.

- Earnings per share growth

Against a target of RPI + 6 per cent per annum on a CAGR basis (which for the period since 1 January 2006 equates to 9.1 per cent) the Group has achieved a CAGR of -14.5 per cent (before works closure costs and asset impairments).

- Return on capital employed ("ROCE") is defined as EBITA / Shareholders' funds plus Net Debt

ROCE for 2008 was 10.3 per cent which is compared with the long term target of 20.0 per cent (before works closure costs and asset impairments).

An additional financial KPI relates to cash flow targets and the Group's cash generation performance is described on page 19. As explained earlier, further KPIs are being actively used to enable the Group to focus more clearly on its short term priorities of cash management and cost reduction.



## Segmental Reporting

The Directors continue to report the Group's operations as a single business segment. The Directors consider that the continuing operations represent one product offering with similar risks and rewards and should be managed as a single business segment in line with the Group's internal reporting framework.

The Group has adopted IFRS 8, "*Operating Segments*", with effect from 1 January 2009. IFRS 8 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. In contrast, the predecessor standard (IAS 14, "*Segment Reporting*") required the Group to identify segments based on a risks and rewards approach, with recognition given to the Group's internal reporting framework.

The Directors have undertaken a review of the requirements of IFRS 8 and have concluded that with effect from 1 January 2009 the Group will continue to operate as a single business segment. In order to assist the reader of the Annual Report some revenue information has been presented in the Operating and Financial Review relating to the Group's Domestic and Public Sector and Commercial markets. Such additional disclosures do not signify two reportable operating segments as the operational structure of the business is organised, reported and assessed on one national basis.

## Net Financial Expenses

Net financial expenses were £8.1 million (2007: £6.7 million) which is made up of external interest on borrowings (including debenture interest) of £8.1 million (2007: £7.1 million). In 2007 there was an IAS 19 notional interest credit of £0.4 million. The IAS 19 notional interest comprises interest on obligations under the defined benefit pension scheme net of the expected return on scheme assets and in 2008 these two elements were broadly neutral. Interest cover, on an accounting basis and before works closure costs and asset impairments, was 3.8 times (2007: 7.3 times).

## Taxation

The tax charge for 2008, before works closure costs and asset impairments, was £6.3 million (2007: £11.8 million) which represented an effective rate of 27.8 per cent (2007: 28.2 per cent). Deferred tax of £7.7 million in relation to the actuarial gain arising on the defined benefit pension scheme in the year has been taken to the Consolidated Statement of Recognised Income and Expenses.

## Dividends

The Group has consistently increased dividends from 1993 to 2007 at a compound rate of 9.3 per cent and in 2004 £75 million was returned to shareholders through a return of capital. In reviewing current dividend policy the Board has assessed carefully the Group's short and medium term earnings outlook and cash generation. Whilst any cut in dividend is regrettable, the Board believes that it is appropriate in the current economic climate to rebase the dividend and accordingly a total dividend of 6.00 pence per share is recommended for 2008.

The Board remains committed to a progressive dividend policy and the level of future dividend payments will take into account the Group's underlying earnings, cash flows and capital investment plans, and the need to maintain an appropriate level of dividend cover.

An interim dividend of 4.55p (2007: 4.55p) per share was paid on 3 December 2008. A final dividend of 1.45 pence (2007: 9.30p) per share is now being recommended for payment on 3 July 2009 to shareholders on the register at the close of business on 5 June 2009. The ex-dividend date will be 3 June 2009. This gives a total of 6.00 pence (2007: 13.85 pence) per share for the year.

On an IFRS basis, which does not account for the final dividend until it is approved at the forthcoming Annual General Meeting, the dividend declared for the year ended 31 December 2008 is 13.85 pence (2007: 13.40 pence) per share which represents an increase of 3.4 per cent.

## Operating and Financial Review (continued)

### Dividend per ordinary share (pence)

IFRS basis				
	2004	2005	2006	2007
	11.25	12.10	12.70	13.40
				13.85

2004	2005	2006	2007	2008
------	------	------	------	------

### Dividend per ordinary share (pence)

Traditional basis				
	2004	2005	2006	2007
	11.90	12.50	13.15	13.85
				6.00

2004	2005	2006	2007	2008
------	------	------	------	------

### Balance Sheet

Group Balance Sheet		2008	2007
		£'m	£'m
Fixed Assets		277.6	276.5
Current Assets		122.6	134.0
Current Liabilities		(89.1)	(104.0)
Non-current liabilities		(117.9)	(105.9)
Net assets		193.2	200.6
Net debt		(111.3)	(96.9)
Period end gearing		57.6%	48.3%

Net assets at 31 December 2008 were £193.2 million (2007: £200.6 million) which represented 135 pence (2007: 140 pence) per share.

The Group continues to keep a tight control of receivables and our debtor days are industry leading. The Group insures all its debts which provides excellent intelligence to minimise the number and

value of bad debts and ultimately provides compensation if bad debts are incurred. Cover is in place until November 2010. Inventories have increased to £89.8 million (2007: £82.9 million), due principally to higher inflationary factors that are affecting raw material costs which have added £6.5 million to the inventory balance.

Risk management has been a key focus for the Group's pension scheme over recent years. In 2000 the defined benefit section of the scheme was closed to new entrants and in 2006 the defined benefit section was closed to future service accrual. Both of these actions have reduced volatility and contained the risks. In the summer of 2007 changes in investment strategy were made with 20 per cent of scheme assets being transferred from equities to liability driven investments to match better the liability profile of the scheme membership. This has benefited the fair value of the scheme assets which have increased from £177.0 million to £183.8 million. The year end balance sheet value for pensions is a surplus of £16.5 million (2007: £17.8 million deficit). This is in part due to the investment strategy but also due to the impact of the relevant financial assumptions set out on page 87. The AA corporate bond rate is 6.7 per cent (2007: 5.8 per cent). Such changes have resulted in an actuarial gain of £19.9 million (net of deferred taxation) (2007: £12.6 million) and this has been recorded in the Consolidated Statement of Recognised Income and Expenses. The surplus of £16.5 million is made up of £167.3 million in respect of the present value of funded obligations net of £183.8 million for the fair value of plan assets. The values have been determined by the Scheme Actuary using prudent assumptions in line with current market levels for accounting purposes.

The actuarial valuation as at 5 April 2008 showed, based on prudent actuarial assumptions, a deficit of £36.2 million. Accordingly, under the scheme specific funding requirements a recovery plan exists and the Group continues to make cash contributions into the scheme.

## Analysis of Net Debt

<b>Analysis of net debt</b>	<b>2008</b>	<b>2007</b>
	<b>£'m</b>	<b>£'m</b>
Bank	<b>91.2</b>	76.5
11.375% Debenture Stock	<b>20.0</b>	20.0
Finance lease liabilities	<b>0.1</b>	0.4
<b>Net debt</b>	<b>111.3</b>	96.9
<b>Net assets</b>	<b>193.2</b>	200.6
<b>Gearing</b>	<b>57.6%</b>	48.3%

The above table shows an analysis of net debt at 31 December 2008. Net debt has increased from £96.9 million to £111.3 million with gearing at the year end being 57.6 (2007: 48.3) per cent.

## Borrowing facilities

The Group renewed its bank facilities in August 2008 and, as illustrated in note 19 on pages 83 and 84, has significant committed facilities in place with a positive spread of medium term maturities with the majority of facilities not maturing until 2011 or later. The total bank borrowing facilities at 31 December 2008 amounted to £166.7 million (2007: £136.7 million) of which £75.0 million (2007: £60.2 million) remained unutilised. In addition, the Group has a seasonal working capital facility of £20.0 million which is available between 1 February and 31 August. The chart below illustrates

significant headroom in its facilities with utilisation at 31 December 2008 representing 60 per cent of the available facilities.

The usual interest cover and net debt to EBITDA covenants are met at the year end. The bank facilities are unsecured other than for inter company cross guarantees between the Group's subsidiary undertakings.

## Operating and Financial Review (continued)

The 11.375 per cent £20.0 million debenture stock is secured by a first floating charge on the assets of Marshalls Group plc and certain subsidiary undertakings and is repayable at par on 30 June 2014, or at the Company's option before then at a price related to the gross redemption yield of a specific category of Government Treasury Stock.

### Cash generation

<b>Group Cash Flow</b>	<b>2008</b>	<b>2007</b>
	<b>£'m</b>	<b>£'m</b>
Net cash from operating activities (before pension contributions)	<b>28.5</b>	32.1
Pension scheme contributions	<b>(6.6)</b>	(4.4)
Net cash from operating activities	<b>21.9</b>	27.7
Net cash from investing activities	<b>(16.3)</b>	(41.6)
Net cash from financing activities	<b>22.8</b>	(12.9)
Net increase/(decrease) in cash & cash equivalents	<b>28.4</b>	(26.8)
Movement in debt and lease financing	<b>(42.8)</b>	(15.5)
Movement in net debt in the period	<b>(14.4)</b>	(42.3)
Net debt at beginning of period	<b>(96.9)</b>	(54.6)
Net debt at end of period	<b>(111.3)</b>	(96.9)

The Group continues to be cash generative. In the year ended 31 December 2008 the cash inflow from operating activities (before pension contributions) was £28.5 million (2007: £32.1 million). After adding back £6.0 million of one-off cash expenditure in relation to works closures, cash inflow from continuing operations was £34.5 million (2007: £32.1 million), an increase of 7.5 per cent. This has been achieved, despite the reduction in sales volumes, by a continued focus on working capital management. The Group benefited from a £5.7 million net inflow of cash on monetary working capital in 2008 compared with a net outflow of £4.7 million in 2007. Overall working capital gave rise to a £2.0 million cash outflow in 2008 (2007: £18.5 million cash outflow). The net cash outflow from inventories in 2008 was £7.7 million compared with £13.8 million in 2007.

<b>Analysis of cash utilisation</b>	<b>2008</b>	<b>2007</b>
	<b>£'m</b>	<b>£'m</b>
Cash generated from the operations	<b>40.7</b>	43.7
Works closure costs	<b>(6.0)</b>	-
Interest and taxation	<b>(12.8)</b>	(16.0)
Operational cash generation	<b>21.9</b>	27.7
Organic investment (capital expenditure)	<b>(14.0)</b>	(17.7)
Strategic development initiatives (capital expenditure)	<b>(8.0)</b>	(14.1)
Proceeds from sale of assets	<b>11.5</b>	3.0
Acquisitions	<b>(6.1)</b>	(12.8)
Other financial items	<b>(0.3)</b>	(6.9)
Cash returned to shareholders	<b>(19.4)</b>	(21.5)
Movement in net debt	<b>(14.4)</b>	(42.3)
Cash returned to shareholders as a percentage of operational cash generation	<b>88.6%</b>	77.6%

Operational cash generation for the year ended 31 December 2008, after cash contributions to the Pension Scheme and works closure costs was £21.9 million (2007: £27.7 million). Interest and corporation tax payments in the year were £12.8 million (2007: £16.0 million).

Total expenditure on capital expenditure and acquisitions in the year was £28.1 million (2007: £44.6 million), with acquisitions comprising £6.1 million and strategic capital growth initiatives £8.0 million, which is a significant decrease compared with the prior year. The remaining £14.0 million of organic capital investment represents the replacement of existing assets and investment in business improvements and developments including robotics and new process technology. As outlined earlier proceeds from the sale of surplus assets contributed £11.5 million. The Group will continue to invest in selective acquisitions and strategic growth initiatives to support the trading initiatives within the core business.

Ordinary dividend payments in the year were £19.4 million (2007: £19.1 million). The utilisation of cash over the last three years is illustrated by the following summary.

### Analysis of cash utilisation, 2006-2008

	£'m
Operational cash generation	109.8
Capital expenditure	(63.3)
Acquisitions	(22.9)
Pension contributions	(21.0)
Other financial items	(7.2)
Sub total	(4.6)
Cash returned to shareholders	(60.0)
Movement in net debt	(64.6)

	2005	2008
	£'m	£'m
Net debt	(46.7)	(111.3)
Capital employed	166.3	193.2
Gearing	28.1%	57.6%

The above chart provides a medium term three year analysis of the cash generation capacity of the Group and how cash generated has been invested to grow the business and also to show the cash returned to shareholders. Cash generated from operating activities was £109.8 million. The Group has invested £63.3 million back into the business in the last three years, which followed investment of £87 million in the three previous years. This investment has provided efficient, industry leading manufacturing and distribution facilities, and this is now enabling the Group to reduce capital expenditure to preserve cash. The Group has also invested £22.9 million in acquisitions in the last three years and paid £21.0 million in pension contributions. Before dividends the cash utilisation, at £4.6 million, has been broadly neutral. After dividends totalling £60.0 million, over the three year period, net debt has increased by £64.6 million with gearing rising to 57.6 per cent.

As explained earlier, the Group's cash generation performance against detailed cash flow targets is one of the main KPIs and in 2008 the targets that were set by the Board were achieved. The Board's current short term objective is to conserve cash wherever possible and reduce Group debt in 2009.

## Operating and Financial Review (continued)

### Financing and Risk Management

The Group's Risk Committee determines the policies and procedures that are put in place to mitigate exposure to risk. A formal rolling process exists to identify, assess and analyse risks and those of a more material nature are included in the Group Risk Register. The Group seeks to mitigate exposure to all forms of strategic and financial risk both external and internal. External risks include political and economic conditions, the effect of legislation or other regulatory actions, the actions of competitors, foreign exchange, raw material prices and pension funding. Internal risks include investment in new products, new business strategies and acquisitions.

### Strategic Risks

Like most businesses in the UK the Group is susceptible to any economic downturn and is dependent on the level of activity in its markets. In the Domestic market activity levels are driven by many factors including general economic conditions, interest rates, inflation, unemployment, demographic trends, general uncertainty in the financial markets and the availability of credit. These factors also affect activity levels in the Public Sector and Commercial market where activity levels are also affected by the extent and speed of delivery of planned Government investment. Long periods of adverse weather conditions could also have a short term impact on construction activity. Our aim is to ensure an excellent understanding of market conditions by constant communication with customers, installers and domestic consumers, together with significant investment in market research and active membership of the CPA. Close monitoring of trends and lead indicators enables the Group to identify and implement necessary actions to address issues that are affecting trading. The balance of revenue between the consumer driven Domestic market and the Public Sector and Commercial market also helps mitigate the potential impact of these risks.

A failure to compete with competitors on price, product range, quality and service could have an adverse effect on the Group's financial results. All these areas are monitored on a constant basis and the Customer Service Index remains one of the Board's key strategic KPIs. The Group continues to invest in strategies that enhance the Marshalls brand.

The Group is exposed to changes in relationships with both customers and suppliers and it remains a key operational priority to maintain and develop such relationships. Any significant increases in raw material and utility prices could adversely affect the Group's performance. Diversity of operations reduces the risk on any single item on supplies and purchasing policies seek to take into account and mitigate such risks, where possible.

The Group requires continued access to debt funding in order to meet its trading obligations and to support the growth of the business. Uncertainty in financial markets means that there is a potential risk that the Group may be unable to obtain additional funds when needed or may be able to do so on unfavourable terms. A breach of bank covenants could result in elements of the Group's borrowings becoming immediately repayable. The Group renewed its bank facilities in August 2008 and has significant committed facilities in place with a good spread of medium term maturities. To mitigate these risks the Group constantly reviews its strategic forward plans to reflect changing market conditions with the aim of maintaining significant headroom against its facilities. Medium term financial forecasts and shorter term budgets are regularly reviewed to assess financing requirements to ensure sufficient headroom against facilities.

The defined benefit section of the Pension Scheme was closed to future service accrual on 1 July 2006 and the introduction of a new defined contribution section to the Pension Scheme has allowed the Group to manage risk better and reduce volatility in the future. Nevertheless the Group continues to be subject to various financial risks in relation to the Pension Scheme, principally the volatility of the discount (AA corporate bond) rate, any downturn in the performance of equities and increases in the longevity of members. The sensitivity to the AA Corporate Bond rate is broadly that, all other things being equal, a 0.1 per cent movement in the discount rate is equivalent to a movement of approximately £3 million in the scheme liabilities. Risk management remains a core theme of the Group's Pension Scheme strategy and the recent transfer of a proportion of Scheme assets from equities to liability driven investments is a further example of an action that has reduced volatility and risk.



Marshall's continues to make strategic business acquisitions that might have an impact on the performance and risk profile of the Group. These risks are mitigated by extensive due diligence and where practicable, by representations and indemnities from the vendors. The integration of acquisitions also involves a number of further risks including the diversion of management's attention and the retention of key personnel within the acquired business. In this regard each acquisition is supported by a detailed integration plan covering all key areas of activity and dedicated project teams containing employees from the wider Group with the appropriate skills required. To support and enable future growth the Group is upgrading its IT systems and this will ensure a common platform across all business units. All IT systems development projects are actively and carefully planned with defined governance and control procedures in place. They are also supported by independent risk and project management audits to ensure that procedures and policies are in line with leading best practice. An important element is to ensure that the risks of disruption to the business are controlled and minimised.

Current economic uncertainty has increased staff turnover and may demotivate remaining staff. One of the Group's key strengths is the quality and experience of its employees and significant resource continues to be directed towards training, personal development and succession planning.

### Financial Risks

The main risks arising from the Group's financial instruments are liquidity risk, interest rate risk, credit risk and foreign currency risk. The Board reviews and agrees policies for managing each of these risks and these are summarised in Note 19 on pages 81 to 85 of the Financial Statements. These policies have remained unchanged since 2007. It is the Group's policy, and has been throughout the period under review, that no speculative trading in financial instruments shall be undertaken.

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 un-drawn committed bank facilities.

The Group enters into forward foreign currency contract derivative transactions of relatively small value. The purpose of such transactions is to manage the currency risks arising from the Group's operations. The Group manages its insurance risk by continuous review and by maintaining a balance between capped self insurance and third party cover against major catastrophes.

### Group Outlook

The overall demand outlook remains uncertain with current sales volumes continuing to reduce. The Group has good visibility of demand in the Public Sector and Commercial market, which now represents approximately 59 per cent of the Group's revenue. Low consumer confidence continues to impact the Domestic market and the short term winter weather conditions and the actions of distributors to reduce their inventories is distorting the underlying picture further.

In the face of current economic uncertainty the Group has been quick to right-size its operations and cost base to withstand the downturn whilst ensuring it retains the capacity and flexibility to meet the upturn when it comes. As a focussed UK Building Materials Group with leading positions in its core markets, Marshall's continues to focus on the market sectors where activity is more robust, developing its paving, walling and street furniture businesses and expanding its natural stone offer.

The Group's balance sheet is robust and the actions that have been taken will reduce borrowings in 2009. The strength of the Marshall's brand, the continued emphasis on innovative new production and materials technology, together with a modern, well invested and efficient manufacturing and logistics network will ensure that the Group will weather the storm and emerge in a stronger competitive position when an upturn arrives.

## Directors' Biographical Notes

### **Mike Davies (61) †\*** **Non-Executive Chairman**

Joined the Board in October 2004. He is the Chairman of the Royal Mint and the Chairman of the Strategic Forum for Construction. He is also a Non-Executive Director of Taylor Wimpey plc and Pendragon plc.

### **Graham Holden (49)** **Chief Executive**

Joined the Company in 1986 and was appointed to the Board in 1992. He is a Chartered Accountant and was previously Group Finance Director and Chief Executive of the Landscape Products Division. He was appointed to his current position on 1 January 2004. He is a Non-Executive Director of KCOM Group Plc.

### **Ian Burrell (51)** **Finance Director**

Joined the Company and the Board in June 2001. He is a Chartered Accountant and was previously Group Finance Director at Cornwell Parker plc.

### **David Sarti (43)** **Chief Operating Officer**

Joined the Group in March 2001 as Group Operations Director having previously been a business strategy consultant with Accenture. He was appointed to the plc Board in November 2004 and is a Chartered Director.

### **Richard Scholes (63) \*†\*** **Senior Independent Non-Executive Director and Chairman of the Audit Committee**

He was appointed to the Board in July 2003. He is a Non-Executive Director of Chaucer Holdings PLC and Keller Group PLC. He is a Chartered Accountant.

### **Andrew Allner (55) \*†\*** **Independent Non-Executive Director and Chairman of the Remuneration Committee**

He was appointed to the Board in July 2003. He is a Non-Executive Director of CSR plc, Northgate plc and The Go-Ahead Group plc. He was previously the Group Finance Director of RHM plc and Chief Executive Officer of Enodis Plc. He is a Chartered Accountant and a former partner of Price Waterhouse.

### **Bill Husselby (69) \*†\*** **Independent Non-Executive Director**

He was appointed to the Board in March 2005. He is Chairman of Cogent Elliott Group, the independent advertising agency, Supervisory Partner of Longbow Venture Capital and a Board member of the Birmingham Opera.

- \* Member of the Audit Committee
- † Member of the Remuneration Committee
- Member of the Nomination Committee

### **Cathy Baxandall** **Group Company Secretary**

## Advisers

### **Stockbrokers**

Citigroup Global Markets Limited

### **Auditors**

KPMG Audit Plc

### **Legal Advisers**

Herbert Smith LLP  
Eversheds LLP

### **Financial Advisers**

N M Rothschild & Sons Limited

### **Bankers**

Royal Bank of Scotland plc  
Lloyds TSB Bank plc

## Registrars

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**Registered in England and Wales:** No. 5100353



# Corporate Responsibility

Marshalls believes in conducting its business in a manner which achieves sustainable growth whilst incorporating and demonstrating a high degree of social responsibility. Marshalls regard Corporate Responsibility as a journey in the course of which it aims to align its business values, purpose and strategy with the social and economic needs of its stakeholders, whilst embedding responsible and ethical business policies and practices in everything it does.

The Board takes regular account of social, environmental and ethical matters in the business of the Group and believes in being responsible in the way that it conducts its operations. David Sarti is the Board Director responsible for managing the key elements of the Corporate Responsibility policy supported by a full time Corporate Responsibility Manager.

Marshalls is pleased to be a constituent member of the FTSE4Good UK Index. The Group publishes an annual Corporate Social Responsibility Report which is posted to shareholders in September. Copies of the 2008 Corporate Social Responsibility Report are available on the Company's web site at [www.marshalls.co.uk](http://www.marshalls.co.uk). In 2009, the Group's Corporate Responsibility Report will combine information previously reported on in the separate Corporate Social Responsibility and Sustainability reports.

## The Market Place

The Group recognises the importance of building and maintaining positive relationships with its customers, suppliers and contractors and is committed to a process of continuous improvement in meeting customers' requirements and expectations through its established customer service improvement programme. This programme has, since its inception in 2003, resulted in significant and sustained improvement in customer order delivery, on time, in full and with increasingly error free product and administration.

The Group Purchasing Policy sets out the standards and ethics by which business is conducted. It seeks to ensure that there is no bias or conflict of interest and that all suppliers are treated fairly. The Group negotiates terms and conditions, including payment terms, with all its principal suppliers. Save in the case of a dispute, payments are made in accordance with such

negotiated arrangements. The Group values and derives considerable competitive advantage from active co-operation with its established suppliers in terms of innovation and product development.

## Ethical Responsibilities

The Group continues to take its ethical responsibilities very seriously. Building on its status as the first in its sector to become a member of the ETI, Marshalls has also become the UK's first heavyside materials manufacturer to be accepted into the prestigious UN Global Compact – the world's largest corporate citizenship and sustainability initiative. The UN Global Compact is a strategic policy initiative for businesses that are committed to aligning their operations and strategies with ten universally accepted principles in the areas of human rights, labour, environment and anti-corruption.

As a member of the ETI, the Group is committed to adopting the ETI Base Code on a progressive basis throughout its supply chains with specific focus on China and India. This code is based on International Labour Organisation conventions and is widely acknowledged as a model code of labour practice. The code's provisions are based on the following principles: no-one should be forced to work; workers should be able to join and form trade unions; working conditions should be safe and healthy; child labour should not be used; working hours should not be excessive; wages should be enough to live on and provide some discretionary income; workers should be treated equally regardless of their sex, ethnic group, religion or political opinions; where possible, workers should be provided with regular employment; workers should not be physically abused or disciplined, and physical, sexual or other harassment and verbal abuse are prohibited.

As well as adopting the ETI Base Code, the Group is also committed to monitoring and improving ethical standards in its supply chain, assessing the impact of its core business activities on labour standards, reporting annually to the ETI on progress and participating in ETI projects.

Marshalls received external recognition in 2008 for its pioneering approach to supply chain accountability, particularly with regard to partnerships with overseas

## Corporate Responsibility (continued)

suppliers. The Group came second only to J. Sainsbury plc in the prestigious 'John Lewis and Waitrose Supply Chain Award', and also won a Business in the Community ('BIC') 'Big Tick' award. In March 2009, the Group won the Sustain Magazine International Prize Award for Trade for its work to improve standards and accountability throughout the supply chain.

### The Environment

Marshalls is committed to assessing and managing the environmental impacts of all its operations. Further details are set out in the Environmental Report on pages 28 to 33.

### The Community

The Group continues to be actively involved in programmes to promote good community relations with the focus on adding value to the local community in which it operates. During the year, the Group made charitable donations of £35,508 (2007: £33,511). It remains the Group's policy not to make political donations.

Giving something back is actively encouraged at Marshalls, with an emphasis on employees being a part of the community in which they operate and being empowered to engage in activities they care about through volunteering and community projects. During 2008, Marshalls' employees donated £26,355 to charities throughout the UK through payroll giving and Marshalls also won the Best Promotional Partnership with a Charity Award at the National Payroll Giving Awards. Marshalls continues to be an active member of Business in the Community, and took part in the National Cares Day in May 2008.

Marshalls worked with school children and celebrity gardeners Chris Collins (from the Blue Peter Garden) and television garden presenter Sven Wombwell to develop its successful design for the 2008 RHS Chelsea Flower Show, 'The Marshalls Garden That Kids Really Want'. Marshalls also ran workshops in schools throughout the UK engaging children in the world of horticulture and basic landscape design. Marshalls is also proud to support the RHS Campaign for School Gardening which aims to ensure that, by 2010, 10,000 primary schools in the UK will have signed up to the Campaign for School Gardening.

### Employees

All Marshalls' employees are encouraged and expected to adhere to the Group's Statement of Values and Principles. The statement includes guidance on business practice, employee relations and equality of opportunity and is subject to regular review to ensure that it continues to set stretching standards in terms of excellence, leadership, ownership, trust, honesty and integrity. There is also an established process through which employees can raise, in confidence, serious concerns about possible improprieties.

The people at Marshalls are key to the success of the organisation, and Marshalls recognises and appreciates diversity within its workforce and the wider community. It is through the enthusiasm and true commitment of all its employees that Marshalls remains a market leader and community player. Marshalls is committed to promoting and maintaining a working environment where people are treated with respect and where individual talent is recognised and valued, and to providing training designed to raise levels of awareness and sensitivity to matters of equality and dignity at work. Marshalls' aim is to implement fair and merit based employment policies and to adhere to relevant legislation as the minimum acceptable standard. The Group's position on disabled employees is as stated in its Equal Opportunities Policy, namely, that it welcomes applications from individuals with recognised disabilities and will ensure they are provided with equal opportunity for employment and, wherever reasonably practicable, adjustments are made to ensure they are not disadvantaged in the workplace.

In 2008 Marshalls worked in partnership with Fair Care, a leading provider of employee benefits through salary arrangements. Staff with parental responsibilities have, for the first time, the opportunity to participate in the Childcare Voucher Scheme, while those who wish to cycle to work can sign up to the Cycle to Work Scheme.

Investment in training and personal development continues across the Group with initiatives in place designed to identify and nurture potential, reinforce the application of consistently good management practices and provide opportunities for succession into more senior roles. During 2008 Marshalls

continued to work with Ashridge Business School on its leadership development programme, giving senior managers the chance to participate in innovative and thought-provoking development training through a mix of lectures, live case studies and real world business projects, designed to expand their appreciation and knowledge of business strategy, team working and self-awareness.

Marshalls continues to encourage and support the development of its employees through programmes of NVQ accreditation and attainment of Investor in People status across many sites.

## Health and Safety

The continuing improvement of both the Health and Safety Management System and annual Health and Safety Performance are key priorities that remain fundamental to the success of the business. The Safety, Health and Incident Prevention ("SHIP") teams, consisting of both employee representatives and managers, are the cornerstone of the safety management systems at site level, and have operated throughout the year. In addition, the implementation of British Standards Institution ("BSI") accredited Integrated Management Registration continued throughout the Group in 2008. These systems incorporate accreditation to OHSAS (Occupational Health and Safety Accreditation Standard) 18001 and by the end of 2008, production sites representing 81 per cent of the Group's manufacturing output had achieved accreditation to OHSAS 18001 standard.

Marshalls introduced a one-day safety refresher course in 2007 to complement its extensive management Health and Safety Training programmes. This proved to be very successful, and further courses were held throughout 2008 and will continue into the future.

Enhanced Accident Investigation training courses for first-line managers were introduced in 2008 and were well attended and supported. As manual handling continues to be a major health and safety risk, the Group's policy of eliminating manual handling activities, wherever practicable, will remain a key focus. Awareness training regarding the impact of the Corporate Manslaughter and Corporate Homicide Act 2007 took place during 2008 and will be extended in 2009 to include the introduction of the Health and Safety (Offences) Act 2008.

The Group's accident performance is monitored by the Board on a monthly basis. The overall rate of workplace accidents within the Group, when measured over a 5 year period, has fallen significantly, with the number of "Major Injuries" (as classified under the Reporting of Injuries, Diseases and Dangerous Occurrence Regulations, or "RIDDOR") reducing from 12 in 2007 to 4 in 2008. The overall number of injuries and accidents reportable to the HSE under RIDDOR was 19.5 per 1,000 employees in 2008 (2007: 17.8 per 1,000 employees), representing an increase of 9.5 per cent on last year. The Group regards this as disappointing, as it does not reflect the ongoing efforts of the Group during 2008 to improve further the quality and safety of the working environment for employees. Marshalls remains committed to meeting the highest safety standards for all its employees, and will be aiming to reinforce and develop further its safety processes, including its training and accident management systems, with a view to maintaining the 5-year downward trend and achieving a year-on-year reduction of 10 per cent in 2009.

Accidents and incidents	2004	2005	2006	2007	2008
(rate per 1,000 employees)					
Major injury	3.8	2.7	2.9	4.2	1.4
Injury resulting in over					
3 absence days from work	29.2	21.9	18.5	13.5	18.1
All RIDDORS	33.0	24.6	21.4	17.8	19.5
Average UK headcount	3,222	2,884	2,746	2,804	2,774

*Ready for pond dipping*

# Environmental Report

## Board Responsibility

David Sarti is the Director responsible for the Environmental Performance of the Group.

## Environmental Policy

The Group's Environmental Policy, which is reviewed at least annually and was last reviewed in February 2009, states:

"Marshalls is committed to achieving the highest standards of environmental performance, preventing pollution and minimising the impact of its operations. The Group's aim is that no lasting environmental damage occurs as a result of its activities, and policies are developed to ensure that all its operations meet or exceed the requirements of legislation and applicable best practice.

Marshalls regards compliance with relevant environmental laws, and the adoption of responsible standards where no legislation exists, as an integral part of its business strategy and is committed to considering the environmental impacts associated with its products throughout their life cycle. Particular focus is applied to the management of greenhouse gas emissions through implementation of a Climate Change Policy, and, in addition to this, the Carbon Footprint of product families is also seen as an important aspect of the Group's management in this area.

Marshalls is committed to monitoring and measuring its environmental performance, using external guidelines where appropriate. Each of its operating sites has assessed the environmental aspects of the activities carried on at that site, and objectives and targets have been set with a view to improving the overall environmental impact of those activities. These will be reviewed on at least an annual basis.

Marshalls will continue to raise environmental awareness within the Group through the development and training of its employees and will communicate openly and consult with customers, suppliers and other stakeholders on relevant environmental matters.

Marshalls strives to conserve natural habitats and create additional areas of biodiversity value. The Group is making progress in benchmarking biodiversity at suitable operational sites. The Group also recognises the need for sympathetic restoration and after-use of quarry and other operational sites and considers the character of the local environment and the concerns of the local community and other stakeholders when planning such matters."

## Environmental Management

During the year, Marshalls continued to roll out Management Systems. 16 sites previously operating Integrated Management Systems were upgraded to comply with Publicly Available Specification 99:2006, ("PAS 99") "Specification of Common Management Systems Requirements as a Framework for Integration" during the year, representing 42 per cent of the Group's manufacturing output. A further 10 sites representing 35 per cent of the Group's manufacturing output are now operating Integrated Management Systems and are expected to upgrade to PAS 99 in the future.

By the end of 2008 the Group had 58 operational sites (2007: 55). Unmanned Display Centres and locations owned by the Group where no business activity took place during the year have been excluded.

Of these sites:

36 (2007: 32) had ISO 9000:2000 Quality Management Systems in place representing 83 per cent of the Group's manufacturing output (2007: 74 per cent).

27 (2007: 24) had OHSAS 18001:1999 for Health and Safety Management Systems in place representing 81 per cent of the Group's manufacturing output (2007: 72 per cent).

26 (2007: 22) had ISO 14001:2004 for Environmental Management Systems in place representing 78 per cent of the Group's manufacturing output (2007: 68 per cent).

In addition, the Group Laboratory and Marketing Support Department have IMS registration which includes Environmental Management to ISO 14001:2004.

The plan is for all operational sites owned at the beginning of 2009 to obtain a minimum of IMS by the end of 2010.

## Environmental Impact

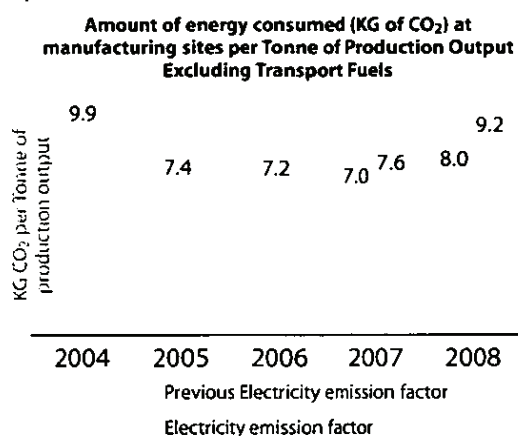
The Group continues to keep the environmental impact of its operations under review, and uses KPIs to measure the impact year on year. During 2008 and in previous financial years, the Group has used KPIs developed by the CPA. In 2009, in view of the wider availability of environmental data and the means by which measures may be tested and externally verified, the Group will review its environmental KPIs to ensure they remain relevant and provide a genuine and transparent means of measuring the Group's environmental performance. The KPIs referred to in this report are consistent with those used in previous financial years: however, many of these KPIs are calculated as a ratio to production output, and have therefore been adversely affected by the decline in sales and lower production output during 2008. Explanatory notes have been included with the charts.

The Group intends to issue a detailed Corporate Responsibility Report at the half-year 2009 combining the matters previously reported on in the Group's Sustainability Report and Corporate Social Responsibility Report.

## Energy

The KPI used in 2008 for energy consumption is the "Amount of energy consumed (kg CO<sub>2</sub>) at manufacturing sites per tonne of production output excluding transport fuels".

The bar chart below illustrates the Group's performance 2004-2008 measured on this basis.



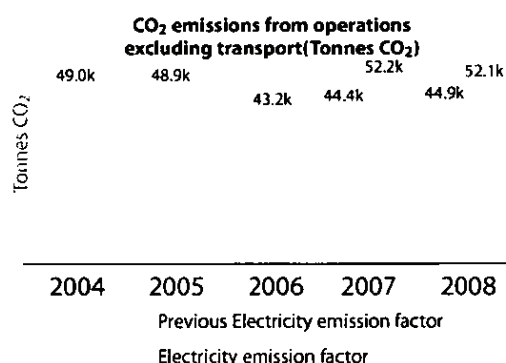
The Group has historically used conversion factors from the DEFRA web site to convert fossil fuel usage to tonnes CO<sub>2</sub> produced, apart from electricity. For electricity, the Group used the factor provided by the Group's supplier of electricity which reflected the mix of sources, including renewables, used to generate the supplier's electricity. Following work with the Carbon Trust and the Building Research Establishment on categorising the carbon content of the Group's product range, it was decided to standardise on the DEFRA conversion factors including electricity. Because the DEFRA conversion factor allows for a greater proportion of fossil fuel-based electricity generation, it has had the effect of increasing the total tonnage of the Group's CO<sub>2</sub> consumed. While this change explains a proportion of the increase the remaining difference is explained by the decline in overall sales during 2008, resulting in a reduction in production especially during the second half of the year. Each operating site has a core energy requirement which is not significantly affected by fluctuations in production volumes (for example, internal and external lighting). Accordingly, the KPI ratio, when calculated on this lower output, suffers in comparison to 2007. This change has resulted in an increase in the kilograms of CO<sub>2</sub> produced per tonne of product produced.



## Environmental Report (continued)

For comparison purposes the KPIs for 2007 and 2008 have been calculated using both conversion factors, so the impact of the standardisation of conversion factors and the effect of the decline in production volumes can be separately identified.

The Group remains committed to reduce its absolute emissions of greenhouse gases, which in the case of the Group's manufacturing processes would mainly involve CO<sub>2</sub>. In 2008 the Group set a target of a saving of 2000 tonnes of CO<sub>2</sub> on the previous year. This target was not achieved in 2008 for the reasons listed earlier. The Group is reinstating the target for 2009. The chart below shows the absolute emissions, excluding transport, achieved in 2008 by comparison to previous years.



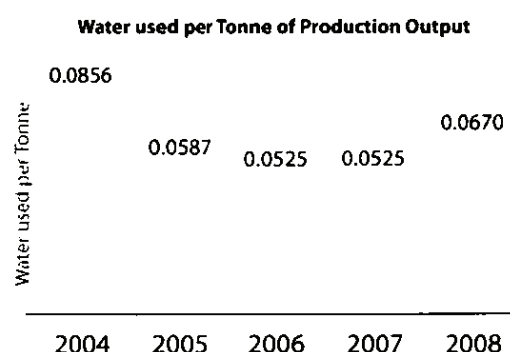
During the year the Group has worked with AEA Technology, specialist environmental consultants partially funded by the Carbon Trust, to develop an overall energy strategy for the Group. This is now being implemented with particular focus on the reduction of energy consumption. Energy champions have been trained for each site and action is underway to deliver further savings in energy. Work done by the Group also includes preparation for the introduction of the "Carbon Reduction Commitment" legislation.

During 2008 the Group submitted data to the "Carbon Disclosure Project." The Group agreed to the data submitted being placed in the public domain. In 2007 the data stated that the Group produced 60,639 tonnes of CO<sub>2</sub>, including transport. Using the DEFRA conversion factor for electricity production the figure would increase to 68,329 tonnes of CO<sub>2</sub>. The Group will continue to support the "Carbon Disclosure Project."

## Water Use

The KPI for water use is the "Volume of water used in cubic metres on site (including office and domestic use) from controlled waters (i.e. mains and extracted water) per tonne of production output".

The bar chart below illustrates the Group's performance 2004-2008.



During 2008 the Group closed certain of its sites and reduced production at other sites to respond to the decline in sales. The sales decline was most acute for base products, such as concrete block paving, which uses less water in its production, while demand for products using a greater amount of water, such as concrete kerbs, remained steady. The result was that water consumption, when measured per tonne of output, showed an increase in 2008. However use of treated water from mains sources declined by 14.9 per cent overall.

The Group has continued to invest in water recycling plants to reduce its dependence on mains and borehole water supplies, with investment at two further sites during 2008. The Group remains committed to improving the balance between recycled and externally supplied water at its main production sites.

The Group monitors discharge water from all its precast concrete sites on a monthly basis and has now extended this monitoring to Natural Stone sites which discharge water. During 2008 there were two incidents where water affected by high levels of naturally-occurring suspended silt was accidentally discharged from quarries. These were investigated by the Environment Agency, who have advised of an intention to prosecute on one incident.

The incident being prosecuted was connected with extreme weather, and measures were promptly taken to avoid any recurrence. The Group remains committed to complying with applicable environmental regulatory standards relating to the management and discharge of water at its sites and assisted the Environment Agency fully in their enquiries.

## Transport

Marshalls increased the proportion of journeys carried out using its own fleet during 2008 by investing in more modern vehicles. This was designed to reduce the overall environmental impact of distribution activity by allowing more efficient transport planning and replacing older sub-contracted vehicles that were in the main more polluting. Improved customer service has also led to fewer returns.

The new fleet vehicles use Euro 5 diesel engines which have improved fuel efficiency combined with lower greenhouse gas emissions. At the end of 2008, 85 per cent of the fleet had been replaced.

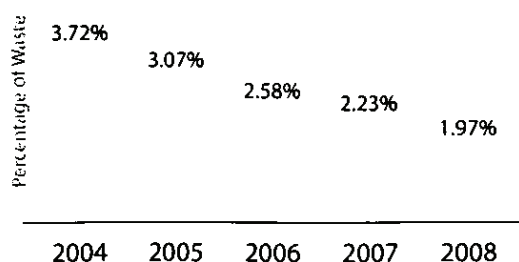
Trials with rail transport for long distance deliveries have proved successful. As a result specialised product is being moved from Southern England to Scotland by rail on a regular basis. Exploration of further avenues for rail transport is ongoing.

## Waste Reduction

The KPI used in 2008 for waste reduction is the "Amount of waste including material for recycling leaving site as a percentage of total production output".

The bar chart below illustrates the Group's performance 2004-2008.

**Percentage of Waste Including Material for Recycling Leaving Site as a Percentage of Total Production Output**



The above chart does not differentiate between waste leaving site for reuse/recycling and waste leaving site for landfill. In 2008, 90 per cent of the Group's waste was reused or recycled (2007: 82 per cent) with only 10 per cent going to landfill (2007: 18 per cent). The Group also continues wherever possible to use waste materials from other industries as feed materials to its production processes. China clay waste, steel slag waste, slate waste, crushed glass and slag cements are typical of the products being utilised.

The Group has significantly reduced the overall impact of waste generated from its operating sites in 2008. The Group's target for 2008 was to reduce the proportion of waste material going to landfill to under 15 per cent, and the Group out-performed against this target, with only 10 per cent of its waste material being sent to landfill. In 2009 the Group is aiming for a further 3 per cent reduction.

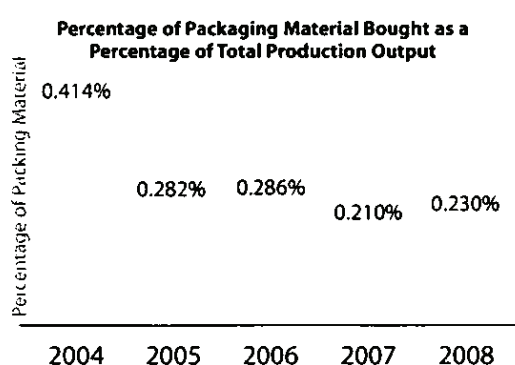
*Bullrushes in Sand Quarry*

## Environmental Report (continued)

### Packaging

The KPI used in 2008 for packaging is the "Amount of packaging material bought in (tonnes) to be used for the containment, protection, handling, delivery and presentation of goods as a percentage of production output".

The bar chart below illustrates the Group's performance 2004-2008.



Again, the 2008 figure has been affected by the decline in production output, and this decline was sharper in base product areas with lower packaging requirements than in the higher-value products which normally have a higher packaging content. The Group uses packaging only to the extent appropriate, for example, to ensure safe handling, storage and transport of its products and to minimise damage to the product and hence waste. In addition, packaging may be used to provide health and safety information to prospective users of the products and instructions on installation.

Packaging principally comprises timber pallets and polythene. The Group carefully monitors the sourcing of timber by its timber pallet suppliers. In 2008, 60 per cent of the timber used by the Group came from UK sources, with most of the remainder coming from Latvia. There was a 15 per cent year-on-year reduction in timber pallet and packaging use by the Group in 2008, resulting in a saving of over 1,250 tonnes of wood, and a reduction in polythene packaging of 11.2 per cent. The Group is seeking to reduce the use of timber pallets by 5 per cent and to reduce the tonnage of polythene packaging used by 5 per cent in 2009.

### Suppliers and Contractors

The Group continues to work with its key suppliers to ensure they have appropriate Environmental Management Systems in place. The Group also works with suppliers to develop environmental best practice standards and to share the benefit of environmental improvements. Further details can be found in the Corporate Responsibility Report on pages 25 to 27.

### Environmental Impact of Products

The Group maintains its policy of producing products intended for a long life with low maintenance. The product range carries a very low risk of pollution. In the majority of cases, products can be easily recycled at the end of their useful life, either as a primary product in the case of most paving or, after crushing, as a secondary aggregate or other form of recycled material. The Group has worked with the Carbon

*Tegula Priora, Traditional, The Gateway, Leeds*



Trust during 2008 to apply a standard methodology to its domestic product range. As a result, the Group is now able to publish the carbon footprint of each product in its domestic product brochure. This is calculated based on the total CO<sub>2</sub> and other greenhouse gases emitted during the product's life including production, use and disposal. The Group is also working with the Building Research Establishment to develop "Environmental Profiles" and give "Ecopoint" scores for its commercial product range. In March 2009, the Group won the Sustain Magazine Governance Award for its pro-active approach to carbon labelling.

## Sustainability

The Group's Sustainability Report is available on the Company's website at [www.marshalls.co.uk](http://www.marshalls.co.uk). The Report gives further details of the Group's Sustainability Plan which sets out to deliver benefits to the environment and all its stakeholders. The plan addresses economic, social and environmental aspects of Marshalls' operations underpinned by development of management systems registered by the independent third party British Standards Institution ("BSI").

Marshalls is an active member of the British Precast Concrete Federation Sustainability Committee. Marshalls is a signatory of the Precast Sector Sustainability Charter. In March 2009 the Group gained the highly coveted Sustain Magazine Gold Award for Sustainability, Business and the Built Environment.

## Land Management

During 2008 all of the Group's major construction projects were contained within existing sites or were on brownfield sites.

## Environmental Awareness and Training

The Group continues to be active in developing environmental awareness among its employees by a variety of means. Subsidised bicycles and development of travel plans for employees to reduce the impact of travel to work are but two examples. Having gained a "Big Tick" for excellence in eco-efficiency in the 2007 Awards from Business in the Community, the Group again received a "Big Tick" in 2008.

## Biodiversity

Marshalls continues to develop its biodiversity awareness. It has plans to develop further benchmarked sites to demonstrate its concern for the protection and development of biodiversity for the benefit of the Group and all its stakeholders. Marshalls won a National Gold Award in the International Green Apple Awards 2008 in recognition of its 'Incorporating Biodiversity Benchmark into Integrated Management System' project.

## Verification

The 2008 data used for measurement of the Group's environmental KPIs is consistent with data used in the Group's previous reports and has been audited by the BSI.

# Directors' Report

The Directors have pleasure in submitting their Report and Financial Statements for the year ended 31 December 2008.

## Principal Activities and Business Review

The principal activities of the Group are the manufacture and supply of landscape, driveway and garden products from a range of materials, including concrete, natural stone, iron, steel, wood, glass and polyurethane.

Certain matters required to be included in this report appear elsewhere in the Report and Accounts, as detailed below. The Chairman's Statement, Operating and Financial Review, Corporate Responsibility Report, Environmental Report, Corporate Governance Report and Directors' Remuneration Report are incorporated by reference into this Directors' Report.

The Operating and Financial Review on pages 6 to 23 contains a detailed review of the principal activities of the Group.

The Corporate Responsibility Report on pages 25 to 27 gives details of the Group's policy in relation to employees and information on charitable and political donations.

Details of the Group's policies in relation to Corporate Governance are set out on pages 38 to 43.

There are no significant agreements (other than those where disclosure would be seriously prejudicial to the Company) to which the Company is a party that take effect, alter or terminate upon a change of control of the Company following a take over bid.

The Operating and Financial Review on pages 6 to 23 incorporates reference to any contractual or other arrangements that are essential to the Group's business.

## Group Results

The Consolidated Income Statement for the year ended 31 December 2008 is shown on page 58.

## Dividends

The Board is recommending a final dividend of 1.45 pence (2007: 9.30 pence) per share which, together with the interim dividend of 4.55 pence (2007: 4.55 pence) per share, makes a combined dividend of 6.00 pence (2007: 13.85 pence) per share. Payment of the final dividend, if approved at the Annual General Meeting, will be made on 3 July 2009 to shareholders registered at the close of business on 5 June 2009.

The dividend paid in the year to 31 December 2008 and disclosed in the Consolidated Income Statement is 13.85 pence (2007: 13.40 pence) per share being the previous year's final dividend of 9.30 pence (2007: 8.85 pence) per share and the interim dividend of 4.55 pence (2007: 4.55 pence) per share in respect of the year ended 31 December 2008 and paid on 3 December 2008.

## Share Capital

Details of the share capital are set out in Note 22 on pages 92 to 93. There were no allotments during the year.

As at 6 March 2009, the Company had 143,106,254 ordinary shares of 25 pence each in issue. Save for the Treasury Shares and some of the shares held by the Marshalls plc Employee Benefit Trust (the "EBT") as set out below, these ordinary shares carry equal rights to dividends, voting and return of capital on the winding up of the Company. Such rights are 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).

Details of outstanding awards under the Marshalls plc Long Term Incentive Plan are set out in Note 20 on pages 88 to 89. The EBT holds shares in the Company on trust for employees (Investment Shares) and also purchases shares to be granted to

Directors and Senior Executives (Matching Shares and Performance Shares) subject to the achievement of Performance Targets. At 31 December 2008 the EBT held 1,139,595 ordinary shares in the Company in respect of Matching and Performance Share Awards (2007: 543,744 shares). No dividends are payable on these shares. The Trustees of the EBT exercise any voting rights in accordance with the Directors' recommendations.

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

### Purchase of Shares

At the Annual General Meeting in May 2008 shareholders gave authority to the Directors to purchase up to 20,961,506 shares representing approximately 14.9 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 2008 and 6 March 2009 under this authority, which will expire at the Annual General Meeting in May 2009. The Directors will seek to renew the authority at that meeting.

### Directors

Details of each of the Directors who served throughout the year, together with biographical details, are set out on page 24.

Mike Davies, Richard Scholes and David Sarti will retire at the Annual General Meeting in May 2009, and each of these Directors, being eligible, will offer himself for re-election in accordance with the Company's Articles of Association. Details of the Directors' service contracts or letters of appointment are set out in the Directors' Remuneration Report on pages 44 to 54 including confirmation that there are no liquidated damages provisions, or compensation payable on a change of control.

Details of Directors' attendance at Board and Committee meetings and a statement on Board Evaluation are set out in the Corporate Governance Report.

The Company has granted an indemnity to David Sarti which is in force at the date of this Report in respect of his participation in, and membership of, the governing bodies of certain third party trade representative organisations on behalf of the Company. The indemnity is limited to what is permitted by law and the Company's Articles of Association. Copies are available for inspection at the registered office of the Company. There were no other such indemnities in force during the year.

### Directors' Interests

Details of Directors' remuneration, interests in the share capital (or derivatives or other financial instruments relating to those shares) of the Company and of their share based payment awards are set out in the Directors' Remuneration Report on pages 46 to 52.

### 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. Specific rules regarding the re-election of the Directors are set out in the Corporate Governance Report on pages 38 to 43.

The Board of Directors may exercise all the powers of the Company subject to the provisions of relevant statutes 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.

## Directors' Report (continued)

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

### Group Events since 31 December 2008

The Group has confirmed its intention to close its site at Llay.

### Risk

Details of the Company's key risks and its objectives and policies for the management of financial and general risk, including its use of and policies in respect of financial instruments, are set out in the Operating and Financial Review on pages 22 to 23. The process for identifying significant risks and uncertainties faced by the Company is in accordance with the Turnbull guidance.

### Fixed Assets

The Group continues to invest in the business with capital investment in the year of £22.0 million (2007: £31.7 million).

In the opinion of the Directors, the market value of the Group's interests in land and buildings at 31 December 2008 remains in excess of the book value.

### Payment to Suppliers

The Group follows the CBI's prompt payment code and operates and abides by a clearly defined payment policy which has been agreed with all major suppliers. The Group's creditor payment period at 31 December 2008 was 58 days (2007: 52 days).

### Substantial Shareholdings

As at 6 March 2009, the Company had been notified of the following disclosable interests of 3 per cent or more in its voting rights.

	%
M&G Investment Management	11.16
Majedie Asset Management	8.87
JP Morgan Asset Management	5.47
AXA Investment Managers	4.30
Mirabaud Investment Management	4.20
Legal & General Investment Management	4.13

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

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

Company law requires the Directors to prepare Group and Parent Company Financial Statements for each financial year. Under that law they are required to prepare the Group Financial Statements in accordance with IFRSs as adopted by the EU and applicable law and have elected to prepare the Parent Company Financial Statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

The Group Financial Statements are required by law and IFRSs as adopted by the EU to present fairly the financial position and the performance of the Group; the Companies Act 1985 provides in relation to such Financial Statements that references in the relevant part of that Act to Financial Statements giving a true and fair view are references to their achieving a fair presentation.

The Parent Company Financial Statements are required by law to give a true and fair view of the state of affairs of the Parent Company.

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

The Directors are responsible for keeping proper accounting records that 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 1985. 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 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.

The Directors who held office at the date of approval of this Directors' Report and whose names and functions are listed on page 24 confirm that, to the best of each of their knowledge:

- (a) the Group Financial Statements in this Annual Report, which have been prepared in accordance with International Financial Reporting Standards (IFRS's) as adopted by the EU, IFRIC interpretation and those parts of the Companies Act 1985 applicable to companies reporting under IFRS, give a true and fair view of the assets, liabilities, financial position and profit of the Group taken as a whole; and
- (b) the Parent Company's Financial Statements in this Annual Report, which have been prepared in accordance with United Kingdom Accounting Standards (United Kingdom GAAP) and applicable law give a true and fair view of the assets, liabilities, financial position and profit of the Parent Company; and
- (c) the Operating and Financial Review 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.

## Disclosure of Information to Auditors

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 Auditors are unaware, and each Director has taken all the steps that he ought to have taken as a Director to make himself aware of any relevant audit information and to establish that the Company's Auditors are aware of that information.

## Cautionary Statement and Directors' Liability

The Group's Annual Report 2008 is to provide information to the members of the Company and 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 Birkby Grange at 12 noon on Thursday 14 May 2009 together with explanatory notes on the resolutions to be proposed, is contained in a circular to be sent to shareholders with this Annual Report.



By Order of the Board  
Cathy Baxandall  
Company Secretary  
6 March 2009

# Corporate Governance

Marshall's is committed to business integrity, high ethical values and professionalism in all its activities. As an essential part of this commitment, the Group supports the highest standards in corporate governance. It is committed to the principles of the Combined Code on Corporate Governance published by the Financial Reporting Council in June 2006 (the Code) and for which the Board is accountable to shareholders.

## Statement of Compliance with the Code

Throughout the year ended 31 December 2008 the Company has complied with section 1 of the Code in all material respects.

The paragraphs below together with the Directors' Remuneration Report on pages 44 to 54 and the Report of the Audit Committee on page 55 describe how these principles are applied within the Company.

## Directors

### The Board, balance and independence

The Board comprises a Non-Executive Chairman, three Executive Directors and three independent Non-Executive Directors who are equally responsible for the proper stewardship and leadership of the Company. Taking into account the provisions of the Code, the Board has determined that each of the Non-Executive Directors is independent and free from any relationships which could compromise their independent judgement. The Board considers it is of sufficient size for the discharge of its duties and that the balance of skills and experience is appropriate for the requirements of the business. The biographical details of the Directors are on page 24.

There is a Schedule of Matters Reserved to the Board. Medium and long-term strategy is frequently discussed and meetings are held with members of the Executive team, on a regular basis, to update the Board on business and strategic issues. In addition the Board is responsible for risk management and for

the development of Group policies including areas such as health and safety, social, environmental and ethical issues.

The Board has formally delegated specific responsibilities to Board Committees, including the Audit, Remuneration and Nomination Committees. The Board will also appoint Committees to approve specific processes as deemed necessary. For example, during the year, Board Committees were established to approve dividend payments and preliminary and Half-yearly announcements.

The Group's structure operates in such a way to ensure that all decisions are made by the most appropriate people in a timely manner that will not unnecessarily delay progress. The Directors and management teams of each Group business are responsible for that business, and are tasked with the delivery of targets approved by the Board and for the implementation of Group strategy and policy across their businesses.

The Board, at its meetings, reviews the financial results of the Group. A detailed business plan and annual budget is prepared for each business in conjunction with its management team. These are then compared in detail with the monthly management accounts. Executive Directors are required to comment on areas where performance departs from current expectations. Any significant variances are discussed at Board level and appropriate action taken.

These policies and procedures collectively enable the Board to make informed decisions on a range of key issues including those relating to strategy and risk management.



The Board has appointed a Senior Independent Non-Executive Director who is available to shareholders if they have concerns which contact through the normal channels fails to resolve or for which such contact is inappropriate.

In 2008 the Board held seven meetings. The attendance of the Directors at the Board and principal Board Committee meetings during the year is detailed in the table below:

	Board (7 meetings)	Audit Committee (4 meetings)	Remuneration Committee (4 meetings)	Nomination Committee (1 meeting)
Mike Davies	7	n/a	4	1
Andrew Allner	7	4	4	1
Ian Burrell	7	n/a	n/a	n/a
Graham Holden	7	n/a	n/a	n/a
Bill Husselby	6	4	3	1
David Sarti	7	n/a	n/a	n/a
Richard Scholes	7	4	4	1

In addition, each Director attended at least two site visits during the year. The Board is scheduled to hold nine meetings during 2009.

At least once a year the Chairman holds a meeting with the Non-Executive Directors without the Executive Directors being present. Led by the Senior Independent Non-Executive Director, the Non-Executives meet without the Chairman being present, at least annually, to appraise the Chairman's performance.

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

The Company maintains an appropriate level of Directors' and Officers' Insurance in respect of legal action against the Directors.

## Corporate Governance (continued)

### Chairman and Chief Executive

The positions of Chairman and Chief Executive are held by separate individuals. The Chairman is primarily responsible for the leadership and effective working of the Board and ensuring that each Director, particularly the Non-Executive Directors, are able to make an effective contribution. He ensures that there is a constructive relationship between the Executive and the Non-Executive Directors. The Chief Executive has responsibility for all operational matters which include the implementation of the Group's strategy and policies approved by the Board. The Board has approved written Terms of Reference for the Chairman and Chief Executive. The Chairman at the time of his appointment did meet, and continues to meet, the independence criteria set out in the Code. Details of other offices held by the Chairman are referred to on page 24.

### Appointments to the Board

The Board has an established Nomination Committee to lead the process for Board appointments and to make recommendations to the Board. The Committee meets periodically and at least once each year. The members of the Nomination Committee are the Chairman, who chairs the meetings, and the three independent Non-Executive Directors.

The Terms of Reference of the Nomination Committee are available on the Company's website at [www.marshalls.co.uk](http://www.marshalls.co.uk). These Terms of Reference explain the role of the Committee and the authority delegated to it by the Board. These Terms of Reference state that the Chairman would not chair the Nomination Committee when it is dealing with his own re-appointment or the appointment of a successor to the Chairmanship.

On a regular basis the Nomination Committee undertakes an evaluation of the balance of skills, knowledge and experience on the Board. The Committee is mindful of the need to regularly review the composition of the Board, and for a particular appointment it will use this evaluation to prepare a description of the role and capabilities required. There were no new appointments to the Board in 2008. The Nomination Committee also makes

recommendations to the Board regarding the re-election by shareholders of any Director under the retirement by rotation provisions in the Company's Articles of Association.

Other significant commitments of the Chairman and the Non-Executive Directors were disclosed to the Board before appointment and the Board is notified of any subsequent changes. It is the Company's policy that Executive Directors can only hold one external Non-Executive Directorship. Graham Holden is a Non-Executive Director of KCOM Group Plc and David Sarti is a Non-Executive Director of an independent private company group.

The letters of appointment of the Non-Executive Directors will continue to be available for inspection at the Company's registered office. These letters of appointment set out the expected time commitment and Non-Executive Directors undertake that they will have sufficient time to meet what is expected of them.

### Information and Professional Development

All Directors are supplied in a timely manner with all relevant documentation and financial information to assist them in the discharge of their duties. This includes information on the Company's operational and financial performance. At every meeting the Board receives a health and safety report.

To ensure that Directors continually update their knowledge and familiarity with the Company, they are encouraged to visit operational sites around the Group. A formal visit programme was arranged during 2008 to enable the Directors to meet local management and to keep them up-to-date with the business. In 2009 the Board intends to combine some of its meetings with visits to other operational sites to reinforce this process.

Training is offered to all new Directors. The Chairman, together with the Chief Executive and the Company Secretary, ensure that newly appointed Directors receive full, formal and tailored induction on joining the Board. Newly appointed Directors would be available to



shareholders if a meeting were requested. In addition, each of the Directors has on-line access to the Virtual Learning Resource Centre at Ashridge, which provides Learning Guides covering a broad spectrum of management skills and competencies. During the year the Directors received briefings on the Companies Act 2006.

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

The Board has an approved procedure for all Directors to take independent professional advice at the Company's expense. All Board Committees are provided with sufficient resources to undertake their duties.

### Performance evaluation

During the year, the Board conducted an evaluation of its own performance and that of its three principal Committees by means of a detailed questionnaire and one-to-one discussions between each of the Directors and the Company Secretary. The evaluation questionnaire included questions about the effectiveness of the Executive and the Non-Executive Directors, Board proceedings, and how Non-Executive Directors were able to develop an understanding of the views of major shareholders about the Company.

The evaluation also asked Directors other than the Chairman to evaluate the performance of the Chairman.

Feedback on the points raised was considered by the Chairman and the Secretary, and action points have been developed for the Board in 2009. The evaluation validated the actions taken during 2008 following the 2007 evaluation, which were believed to have improved the effectiveness of the Board. The Board will undertake a performance evaluation during 2009.

### Re-election of Non-Executive Directors

The Company's Articles of Association require Directors to retire and seek re-election at the first Annual General Meeting of the Company following their appointment. The Articles of Association include a provision for one third of the Directors to retire and seek re-election at each Annual General Meeting, ensuring that no Director serves more than three years without retiring and being proposed for re-appointment.

Non-Executive Directors are appointed for specific terms subject to re-appointment and the Company's Articles of Association and subject to the Companies Act provisions relating to the removal of a Director. The Nomination Committee carries out a performance evaluation for each Director who is retiring by rotation and is seeking re-election and also in the event of a proposal to re-appoint a Director on expiry of their current appointment. In the circular to shareholders accompanying the resolution to re-elect a Non-Executive Director, the Board will explain why it believes that the Non-Executive Director should be re-elected. The Chairman will confirm to shareholders when proposing re-election that, following a formal performance evaluation, the performance of the director concerned continues to be effective and that they demonstrate commitment to the role.

The appointment of Bill Husselby was renewed for a second three year term in March 2008. The appointment of Mike Davies was also renewed for a second term of three years from October 2007. Each of Andrew Allner and Richard Scholes were re-appointed for a second three year term in July 2006. The Nomination Committee has carried out a particularly rigorous review in connection with the proposal to re-appoint them for a third term in 2009.

### Conflicts of Interest

To address the effect of Section 175 of the Companies Act 2006 (directors' conflicts of interests) which came into force in October 2008, the Company's Articles were amended to enable the Board to authorise situations that may give rise to Directors' conflicts of interest. The Board has adopted procedures for the authorisation of existing situations and for

## Corporate Governance (continued)

considering (and authorising where appropriate) new situations which may give rise to a conflict of interest on the part of any Director.

The procedures give guidance to Directors as to what situations may be affected and of their obligations to notify the Company, through the Chairman of the Nomination Committee, of any such situations. The Company maintains a Section 175 Conflicts Register showing those situations which have been authorised and the relevant date of such authorisation.

Since adopting the procedure, as at the date of this report, the Board has authorised a number of situations advised to it by the Directors, all of which are the holding of directorships or similar offices with companies or organisations not connected with the Company. The Board has not, in relation to any of those situations, identified any actual conflict of interest, and has authorised such situations in accordance with its powers. These authorisations are recorded in the Conflicts Register of the Company maintained by the Secretary. The Board has delegated general authority to the Nomination Committee to carry out a review of such authorisations no less than annually and to make recommendations to the Board on particular situations notified to it in future.

### Directors' Remuneration

Details of the Directors' remuneration are set out in the Remuneration Report on pages 46 to 54. The report details the Company's compliance with the Code's requirements with regard to remuneration matters. The Terms of Reference of the Remuneration Committee were reviewed during the year and are available on the Company's website at [www.marshalls.co.uk](http://www.marshalls.co.uk).

### Accountability and Audit Financial Reporting

In presenting the Annual and Half-yearly Financial Statements the Directors seek to present a balanced and understandable assessment of the Group's position and prospects. The Directors have adopted the going concern basis in preparing these Financial Statements.

The respective responsibilities of the Directors' and the Auditors in connection with the Financial Statements are explained in the Statement of Directors' Responsibilities on pages 36 and 37 and the Auditors' Report on pages 56 and 57 respectively.

### Internal Control

The Board is responsible for the Group's system of internal controls and for reviewing its effectiveness. Throughout the year under review and up to the date of this report the Board has operated procedures to meet the requirements of the Code as set out in the 'Internal Control Guidance for Directors on the Combined Code' published in September 1999.

The Directors acknowledge their responsibility for the Group's system of internal control and for reviewing its effectiveness. Such a system is 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.

There is an ongoing process for identifying, evaluating and managing the Group's significant risks through a Risk Committee which reports directly to the Board.

The Risk Committee comprises the Executive Directors. The Risk Committee is responsible for identifying, evaluating and managing any material risks which might threaten the Group's business objectives. In undertaking this work, it receives regular risk reviews and an annual risk assessment report carried out by the head of each business unit. From this information, the Risk Committee has compiled a Register which identifies the Group's key risk areas, the probability of these risks occurring and the impact they would have. In addition, the Risk Register identifies the controls that exist to manage and, where possible, minimise or eliminate those risks. The Risk Register is used to direct action programmes to test the effectiveness, including independent audit assessment, of those controls. This process is regularly reviewed by the Audit Committee on behalf of the Board.

In addition to the major risk review process, the Group operates under an established internal control framework, the key features of which include clearly defined reporting lines and authorisation procedures

and a comprehensive budget and monthly reporting system.

The Board has carried out an annual assessment of the effectiveness of the Group's risk management and internal control system (including its financial, operational and compliance controls and risk management systems) for the year to 31 December 2008 by considering reports from both the Audit Committee and the Risk Committee.

### Audit Committee and Auditors

Information relating to the Audit Committee is set out in the Report of the Audit Committee on page 55. The report details the Company's compliance with the Code's requirements with regard to audit matters. The Terms of Reference of the Audit Committee are available on the Company's website at [www.marshalls.co.uk](http://www.marshalls.co.uk).

### Going Concern

The Directors consider, after making appropriate enquires at the time of approving the Financial Statements, that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future, and accordingly, that it is appropriate to adopt the going concern basis in the preparation of the Financial Statements.

## Relations with Shareholders

### Dialogue with Institutional Shareholders

The Board is accountable to shareholders for the Company's continued success. The Board accordingly places great emphasis on maintaining good communications with shareholders.

The Chief Executive and Finance Director meet regularly with major shareholders to discuss the Group's performance, strategic issues and shareholder investment objectives. Reports of these meetings and any shareholder communications during the year are provided to the Board. The regular announcements of significant events affecting the Group and the frequent updates on current trading emphasises the Board's commitment to keeping the Company's investors informed of developments affecting the Group. The Company does, periodically, arrange site visits for investors, and from time to time, and when appropriate, the Non-Executive Directors will attend meetings with major shareholders. The

Board also regularly receives copies of analysts' and brokers' briefings.

The Annual and Half-yearly Reports, together with the Marshalls website, are substantial means of communication with all shareholders during the year.

### Constructive use of the Annual General Meeting

The Notice of Annual General Meeting is dispatched to shareholders, together with explanatory notes or a circular on items of special business, at least 20 working days before the meeting. It is the Company's practice to propose separate resolutions on each substantially separate issue including a resolution relating to the Report and Accounts.

A presentation is made on the progress and performance of the business prior to the formal business of the meeting.

The Chairmen of the Audit, Remuneration and Nomination Committee normally attend the Annual General Meeting and are available to answer questions. All Directors normally attend the meeting.

The Board welcomes questions from shareholders who have an opportunity to raise issues informally or formally before or at the Annual General Meeting.

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

All valid proxy appointments are properly recorded and counted. For each resolution, after the vote has been taken, information on the number of proxy votes for and against the resolution, and the number of shares in respect of which the vote was withheld, are given at the meeting and are made available on the Company's web site at [www.marshalls.co.uk](http://www.marshalls.co.uk). The Company will continue this practice and will, in future, also include information on the number of shares in respect of which proxy appointments have been validly made.

# Directors' Remuneration Report

The Report is divided into two sections. The first section is a letter from the Remuneration Committee Chairman setting out what the Committee is aiming to achieve and how it goes about it. The second section details remuneration in 2008, summarises the decisions taken for 2009 and sets out the policies and other statutory disclosures. The headings clearly marked with an asterisk (\*) identify the information that has been audited in accordance with Schedule 7A of the Companies Act 1985. The audited information commences on page 48. Membership of the Remuneration Committee is as set out on page 24. An ordinary resolution to receive and approve this Report will be proposed at the Company's Annual General Meeting to be held on 14 May 2009.

## Section 1: Remuneration Committee Aims and Objectives

### Dear Shareholder,

Our remuneration policy is designed to ensure that we can attract, retain and continue to motivate talented Executive Directors. The policy seeks to align Executive Directors' remuneration with shareholder interests and achieves this by balancing a basic package benchmarked periodically against the median of a suitable comparator group with the opportunity to achieve upper quartile remuneration from a combination of stretching, but achievable, short and long term incentives.

The remuneration package has three key elements:

1. A fixed package which comprises basic salary, a defined contribution pension with Company contributions of 30 per cent of basic salary, life assurance, a fully expensed company car and private medical insurance. Based on independent advice, the Committee considers this package to be around the median level for companies of Marshalls' scale and complexity.
2. A performance related bonus to provide a clear link between remuneration and short term business performance. This pays up to 100 per cent of basic salary based on the achievement of underlying profit before tax targets and cash targets which are set each year in the light of prevailing market conditions. Underlying profit as opposed to reported profit before tax is used to avoid bonus performance being impacted by exceptional items. The Committee has consistently applied its policy for the treatment of positive and negative one-off items and strategic business initiatives, and for any changes to accounting policies, for a number of years. The items are generally agreed in advance with the Committee and are subject to review by the Auditors.
3. A long term incentive scheme ("LTIP") designed to improve alignment between Executive Directors' and shareholder interests. The Committee can make two Awards each year; a Matching Share Award dependent upon the Director making an investment in shares equal to part or all of his performance related bonus, and a Performance Share Award. The vesting of both Awards is subject to the achievement of stretching performance targets, and the maximum individual annual grant of Awards of shares under the LTIP is capped at shares with a market value at the date of grant of 250 per cent of basic salary.

### Share ownership guidelines

We want our Executive Directors to have a significant level of share ownership to promote alignment with shareholders and accordingly the Committee has set share ownership guidelines. The Chief Executive has a target of twice basic salary and other Executive Directors have a target of one times basic salary, based on actual purchase price at the time of acquisition. All Executive Directors had achieved or exceeded their target by 31 December 2008. Details of the Executive Directors' interests in shares are set out on pages 50 and 51.

## Work of the Committee

There has been a substantial change in economic and market conditions in 2008. The paragraphs below cover the individual elements of the remuneration package, the consequences of this change in circumstances and the decisions that the Committee has taken in response to meet our objectives to attract, retain and continue to motivate talented Executive Directors. In summary:

- The overall structure of the remuneration package remains unchanged;
- There will be no increase in basic salaries for 2009;
- No performance-related bonus will be paid for underlying profit before tax in respect of 2008, as the targets were not met. There will be a payment of 15 per cent of basic salary for the full achievement of the cash target. The targets were set at the beginning of 2008 and have not been changed.
- As a result, the overall level of Executive Directors' remuneration in 2008 has fallen by circa 30 per cent and the level of performance-related bonus earned in 2008 has fallen by almost 80 per cent in comparison to 2007.
- For the 2009 performance bonus, achievement of profit before tax and cash targets will be equally weighted. This reflects their equal importance during 2009 and is consistent with our approach for Performance Share Awards. In recognition of the uncertain economic outlook and the downgrade of external consensus expectations in our sector for 2009 in comparison to 2008, the bonus opportunity for achieving on-target performance in 2009 will be limited, increasing only for performance in excess of target.
- The performance targets applicable to the first Matching Share Awards made under the LTIP

in 2006 were tested at the end of 2008 and these awards did not vest.

- No change has been made to the performance conditions applying to existing LTIP awards, and there will be no softening of the performance conditions when applied to the 2009 LTIP awards. Existing Matching Share Awards vest when EPS is equal to or more than RPI plus 9 per cent over the three years from date of grant, with the full award vesting only when EPS reaches RPI plus 21 per cent. Performance Shares vest when a combination of the same EPS targets and an operating cash flow target are reached. These targets are particularly stretching in the current economic climate. To help satisfy its retention objective, the Committee has approved Performance Share Awards in 2009 for Executive Directors of 100 per cent of basic salary. In addition, Matching Share Awards over circa 30 per cent of salary will be granted to the Executive Directors. Both awards are subject to the performance conditions.

In 2008 the Committee has continued to monitor the effectiveness of the remuneration policy to ensure it encourages and rewards good performance and provides clear alignment between the interests of Executive Directors and shareholders. The Executive Directors' remuneration packages were independently reviewed in 2007 before determining 2008 packages. During 2008 Hewitt New Bridge Street carried out an independent review of senior executives' remuneration which, although it did not specifically re-test Executive Director packages, confirmed that the Company's overall approach to remuneration remains consistent with our stated policy.

Further explanation of the Committee's decisions in respect of basic salary for 2009, bonus payments for 2008 and targets for 2009 and LTIP awards for 2009 is given below.



## Directors' Remuneration Report (continued)

### Basic Salary

As a response to the present economic and market conditions, no increases in basic salary have been awarded to Executive Directors for 2009.

### Annual Performance Bonus payments for 2008 and targets for 2009

A maximum annual performance bonus of 100 per cent of basic salary for exceptional performance is payable under the Annual Performance Bonus arrangements.

In 2008, 85 per cent of the bonus was payable for underlying profit before tax targets and 15 per cent for cash targets. There was no revision of bonus targets during the year, and the target level for underlying profit before tax was not achieved despite good relative performance in a poor economic climate. Consequently, no bonus is payable in respect of the underlying profit before tax element. Following early action in 2008 by the Executive Directors to reduce excess production capacity and capital expenditure, the cash target was achieved in full, resulting in 15 per cent of the bonus becoming payable. Accordingly, a total annual performance bonus of 15 per cent (2007: 77.2 per cent) is payable to the Executive Directors. The Committee believes that it is appropriate that achievement of this stretching cash target should be rewarded in the current economic conditions.

After careful deliberation, to reflect the change in economic and market conditions and the higher priority given to cash management as a key measure of successful performance in the 2009 business plan, for 2009 the Committee has decided that 50 per cent of the annual performance bonus will be dependent on the achievement of underlying profit before tax targets and 50 per cent for the achievement of cash targets. In each case, the bonus only becomes payable once the performance conditions are met, and is limited for on-target performance, increasing on a straight line

basis for out-performance, of the targets. The financial band between minimum and maximum is the same as 2008 to ensure that there is no increase in the proportion of profit paid out in bonuses in these more challenging times. The Committee considers that long term shareholder value will be preserved and enhanced through the achievement of stretching targets focused on a balance of good cash management and the delivery of profitable growth.

### Marshall's plc 2005 Long Term Incentive Plan (the LTIP)

Each of the Executive Directors has indicated their intention to invest their full annual performance bonus in Marshall's plc shares by means of rolling over Investment Shares in the LTIP, or by using freely transferable shares already held, that would otherwise be capable of immediate sale. The Committee considers, having taken professional advice, that this reduces the administration of the LTIP without altering its effect or purpose. The Remuneration Committee has approved Matching Share Awards in respect of Investment Shares in the LTIP by reference to the value of the 2008 annual performance bonus earned. The Matching Shares awarded in 2009 will vest only if the performance criteria over the three year period 2009-2011 are met.

The Committee considers that the performance criteria set for previous awards of Performance Shares remain extremely stretching and has approved Performance Share Awards for 2009 using the same stretching criteria. All Executive Directors will be awarded Performance Shares equal to 100 per cent of basic salary. The Committee believes that this is wholly consistent with the principle of alignment of the interests of shareholders and the Executive Directors, and ensures that a significant element of Executive Directors' remuneration is variable and dependent on share price performance.

### Fixed and Variable Remuneration

The table below shows the balance between fixed and performance related pay at target and maximum performance levels. The Committee has taken into account the sensitivities of shareholder and investor groups in determining the point at which performance-related schemes would pay out in the current economic climate. As stated above, this means that a bonus is only payable once

target performance is reached and consequently the opportunity to award Matching Shares under the LTIP is restricted when performance does not beat the target. The "target" column in the table assumes no better than on-target performance in 2009, whereas the "maximum performance" assumes achievement of a maximum bonus, fully invested in the LTIP and full vesting of shares under the LTIP. At maximum, over 70 per cent of remuneration remains performance-related.

#### Relative proportion of fixed and variable remuneration

I hope you find this report helpful and informative.

**Andrew Allner**  
**Chairman of the Remuneration Committee**



## Directors' Remuneration Report (continued)

### Section 2: Directors' Remuneration and Statutory Disclosures

#### Directors' Remuneration\*

	Salary/ fees	Annual performance bonus	Benefits	Total remuneration (excluding pensions)		Pension defined contribution payments		Maximum potential LTIP shares awarded Number of shares
	£'000	£'000	£'000	2008 £'000	2007 £'000	2008 £'000	2007 £'000	
<b>Chairman</b>								
Mike Davies	145	-	-	145	145	-	-	-
<b>Executive Directors</b>								
Ian Burrell	230	34	15	279	388	69	63	302,849
Graham Holden	400	60	18	478	687	120	114	620,839
David Sarti	230	34	19	283	391	69	63	298,000
<b>Non-Executive Directors</b>								
Andrew Allner	44	-	-	44	43	-	-	-
Bill Husselby	34	-	-	34	33	-	-	-
Richard Scholes	44	-	-	44	43	-	-	-
	<u>1,127</u>	<u>128</u>	<u>52</u>	<u>1,307</u>	<u>1,730</u>	<u>258</u>	<u>240</u>	<u>1,221,688</u>

#### Notes to Directors' Remuneration

- (a) The salaries, fees, performance related bonuses and benefits all relate to the year ended 31 December 2008.
- (b) The highest paid Director in the year was Graham Holden.
- (c) Benefits are the provision of a fully expensed Company car and medical insurance.
- (d) Graham Holden served as a Non-Executive Director of KCOM Group Plc throughout 2008. During the year he received a fee of £45,000 from this company which is not included in the above figures.
- (e) During the year David Sarti served as a Non-Executive Director of an independent private group of companies in respect of which he received a fee of £18,750 which is not included in the above figures.

#### Non-Executive Directors' Fees

The fees for the Non-Executive Directors were reviewed in January 2008. The basic fixed annual fee is £34,386 with an additional fee of £10,000 for the Chairmanship of a Board Committee. During the year the Chairman received a fixed fee of £145,000. The Non-Executive Directors also receive an annual fixed gross payment of £5,000 (£10,000 in the case of the Chairman) to cover travelling, accommodation and subsistence expenses incurred in the performance of their duties. Neither the Chairman nor the Non-Executive Directors receive any other benefits or participate in the pension or share based incentive schemes. It is not proposed to increase Non-Executive Directors' fees for 2009.

#### Marshall's plc 2005 Long Term Incentive Plan (the LTIP)

The LTIP was approved by shareholders in May 2005 and provides Executive Directors and senior executives with an opportunity to invest a proportion of their net annual performance bonus in Investment Shares. Matching Share Awards are then granted based on the grossed up value of these Investment Shares. The maximum Matching Share Award in any year is limited to two times the grossed up value of Investment Shares. Executive Directors are required to invest 50 per cent of their annual performance bonus in the LTIP to the extent they have not met the minimum targets for share ownership. Executive Directors may choose to invest the full value of their net annual performance bonus in the LTIP on a voluntary basis. For 2009 Matching Share Awards, the Executive Directors have met the

minimum share ownership targets and the Committee is permitting them to roll over Investment Shares in the LTIP, or use freely transferable shares already held, that they would otherwise be free to sell immediately, up to a maximum of their net annual performance bonus for 2008. This avoids the undesirable result of an Executive Director selling and buying an equal number of shares in order to be granted a 2009 Matching Share Award. The Committee has been advised that this is permitted under the LTIP rules on the grounds that it is a minor change that improves the administration of the LTIP and is tax efficient without providing a material commercial advantage to the executives.

In 2007, amendments to the LTIP were approved by shareholders to allow the grant of Performance Share Awards to eligible Executive Directors and senior executives of up to 100 per cent of basic salary each year. The vesting of the Matching Share Awards and the Performance Share Awards is subject to the achievement of pre-determined three year performance conditions.

An Executive Director may not receive Matching Share Awards and Performance Share Awards in any financial year over shares having a total market value (established at the date of grant) in excess of 250 per cent of his annual basic salary in that financial year.

Details of the performance conditions for LTIP awards are set out below. Details of Awards made to the Directors are set out on page 51. No LTIP awards vested during the year.

### Matching Share Awards

Matching Share Awards are subject to the achievement of a three year earnings per share ("EPS") performance condition. For a Matching Share Award to vest, there must have been an improvement in reported EPS, measured using International Financial Reporting Standards based on the audited results of the Company and subject to the discretion of the Committee with regard to one off items. Any adjustments will be made after consultation with the Company's auditors to ensure transparency.

The EPS conditions for Matching Share Awards granted in March 2006 were not met, so these Awards have now lapsed.

For Matching Share Awards granted in each of March 2007, March 2008 and to be granted in March 2009, the EPS performance conditions are:

RPI + 9 per cent over 3 years	50 per cent match
RPI + 21 per cent over 3 years	200 per cent match

Straight line matching occurs between these points. No Awards will vest for performance below RPI + 9 per cent over three years.

### Performance Share Awards

Executive Directors are eligible to receive Performance Share Awards of up to 100 per cent of basic salary each year. The vesting of an Award is to be equally dependent upon two elements, measured over a three year period: (i) an improvement in reported EPS, measured using International Financial Reporting Standards based on the audited results of the Company and subject to the discretion of the Committee with regard to one off items, and (ii) operating cash flow ("OCF") growth, calculated by taking the aggregated OCF for the three financial years preceding the year of grant of the Award and comparing it with the aggregate OCF for the three financial years of the performance period. The measures will be calculated by reference to the audited results of the Company in each case, and any adjustments will be made after consultation with the Company's auditors to ensure transparency.

In each case, straight line vesting occurs between points. No Awards will vest for performance below RPI + 9 per cent over three years. All awards are subject to the discretion of the Committee.

The performance measures for Matching Share Awards and Performance Share Awards are considered the most appropriate measures of long term performance at Marshalls plc and reflect the Company's focus on earnings growth and cash flow, thereby providing alignment with the Company's internal objectives of earnings growth and efficient management of working capital, particularly stock.

## Directors' Remuneration Report (continued)

### Performance Share Award Conditions

Three year earnings per share growth	Proportion of total award vesting
RPI + 9 per cent	12.5 per cent
RPI + 21 per cent	50 per cent
Three year operating cash flow growth	Proportion of total award vesting
RPI + 9 per cent	12.5 per cent
RPI + 21 per cent	50 per cent

No Awards will vest for performance below RPI + 9 per cent over three years

### Directors' Interests, Share Options and Long Term Incentive Plan Awards \*

#### Directors' Interests

The beneficial interests of the Directors and their immediate families in the shares of the Company are as follows:

	1 January 2008				31 December 2008			
	Ordinary Shares	Marshall's Share Purchase Plan Shares	LTIP Investment Shares	Total	Ordinary Shares	Marshall's Share Purchase Plan Shares	LTIP Investment Shares	Total
Andrew Allner	20,000	-	-	20,000	25,000	-	-	25,000
Ian Burrell	28,216	481	41,175	69,872	28,216	1,397	79,615	109,228
Mike Davies	35,000	-	-	35,000	45,000	-	-	45,000
Graham Holden	219,106	481	79,703	299,290	219,106	1,397	149,262	369,765
Bill Husselby	30,000	-	-	30,000	30,000	-	-	30,000
David Sarti	31,094	481	37,426	69,001	36,432	1,397	75,866	113,695
Richard Scholes	13,000	-	-	13,000	35,000	-	-	35,000

#### Notes to Directors' Interests

- There were no changes between 1 January 2009 and 6 March 2009 save that each of the Executive Directors acquired 478 shares in the Marshall's plc Share Purchase Plan (the "Plan") between January and March 2009. The Plan is an HM Revenue & Customs approved Employee Share Incentive Plan which was approved by shareholders in 2006. All employees with more than 6 months service are eligible to participate in the Plan which entitles them to purchase shares in the Company with pre-tax salary.
- The Non-Executive Directors are not eligible to participate in the Plan or the LTIP.
- None of the Directors held any share options during the year, nor did they hold any interests in derivatives or other financial instruments relating to the Company's shares.

## Long Term Incentive Plan (the LTIP)

	LTIP Share Awards	At 1 January 2008	Granted	Exercised	Lapsed	At 31 December 2008	Market Price on Date of Award (pence)	Date of Award	Date from which Exercisable
Ian	Matching Shares	55,018	-	-	55,018	-	345	31.03.06	n/a
Burrell	Matching Shares	84,556	-	-	-	84,556	326	16.03.07	16.03.10
	Performance Shares	41,556	-	-	-	41,556	379	17.05.07	17.05.10
	Matching Shares	-	130,305	-	-	130,305	249	10.03.08	10.03.11
	Performance Shares	-	46,432	-	-	46,432	248	13.03.08	13.03.11
Graham	Matching Shares	106,521	-	-	106,521	-	345	31.03.06	n/a
Holden	Matching Shares	163,657	-	-	-	163,657	326	16.03.07	16.03.10
	Performance Shares	100,263	-	-	-	100,263	379	17.05.07	17.05.10
	Matching Shares	-	235,791	-	-	235,791	249	10.03.08	10.03.11
	Performance Shares	-	121,128	-	-	121,128	248	13.03.08	13.03.11
David	Matching Shares	47,158	-	-	47,158	-	345	31.03.06	n/a
Sarti	Matching Shares	79,707	-	-	-	79,707	326	16.03.07	16.03.10
	Performance Shares	41,556	-	-	-	41,556	379	17.05.07	17.05.10
	Matching Shares	-	130,305	-	-	130,305	249	10.03.08	10.03.11
	Performance Shares	-	46,432	-	-	46,432	248	13.03.08	13.03.11

### Notes to the Long Term Incentive Plan

(a) The share price on 31 December 2008 was 90 pence.

(b) The Matching Share Awards are subject to an EPS performance target and the Performance Share Awards are subject to EPS and OCF performance targets as set out above.

There are no other disclosable transactions by the Group under IAS 24, "Related Party Disclosures". There have been no other disclosable transactions by the Company and its subsidiaries with Directors of Group companies and with substantial shareholders since the publication of the last Annual Report.

## Statutory Disclosures

### Role of the Committee

The Committee is responsible for determining, on behalf of the Board, the framework of remuneration for the Executive Directors and reviewing the on-going appropriateness and relevance of the policy. The Committee approves the general recruitment terms, remuneration benefits, employment conditions, pension rights, compensation payments and service terms for the Executive Directors. It also approves the rules and associated guidelines for share based award schemes. The Committee may not determine its own fees but may make recommendations regarding the setting of the Chairman's fee. The Committee members having served during the year are identified on page 24.

### General Policy

It continues to be the Committee's policy to set the remuneration package at median for median performance, and upper quartile for exceptional performance. In setting all elements of remuneration the Committee is advised by independent consultants and uses data from external research into the salaries and benefits paid by companies of a comparable size and complexity to the Company. It also considers levels of increase granted to other employees within the Group. In setting its remuneration policy, the Committee is aware of the social, ethical, environmental and governance issues that face the Group and the need to motivate and manage corporate performance without the risk of inadvertently motivating irresponsible behaviour. The Committee has the discretion to structure its remuneration policy for the Executive Directors and senior executives to take account of these risks. The Committee believes that the

## Directors' Remuneration Report (continued)

remuneration packages deliver a combination of shorter and longer term incentives that are aligned with the wider interests of the Company's stakeholders.

During the year, the Committee received advice from Hewitt New Bridge Street on remuneration packages and long term incentive arrangements. Hewitt New Bridge Street was appointed by the Committee and does not have any other connection with the Company. No other services were provided to the Company by Hewitt New Bridge Street. The Committee has also consulted the Chief Executive in respect of those directors who report to him, although not in respect of his own remuneration.

### Remuneration of Executive Directors

#### Basic Salary

The Committee seeks to pay salaries which take account of individual performance and take account of those paid in comparable companies in the FTSE Construction & Materials Sector and in the FTSE index more generally. It has been the practice to give the Executive Directors, along with all employees, an annual cost of living increase, with further increases awarded on merit, increased responsibility or to take account of changes in the salaries paid by comparable companies; however, the Committee uses comparisons with caution to avoid increasing remuneration levels without a corresponding

improvement in performance. Basic salary is reviewed at 31 December each year or when a change of responsibility occurs. Exceptionally, in 2009 in recognition of the wider economic circumstances and of the decline in the share price of the Company, no cost of living pay increase was awarded to Executive Directors or senior executives.

#### Performance Related Pay

The policy of the Committee is to align Executive Directors' interests with those of shareholders and to give these Executives incentives to perform at the highest levels. To achieve this it seeks to ensure that a significant proportion of the remuneration package varies with the financial performance of the Group.

The performance related elements of the remuneration package are the annual performance bonus and the LTIP.

#### Annual Performance Bonus

Details of the annual performance bonus are set out on page 46.

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

Full details of the LTIP are set out on pages 46 to 47 above.

Details of share ownership guidelines for Executive Directors are set out on page 44.

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## Five Year Total Shareholder Return

This graph shows the Group's total shareholder return ("TSR") performance compared to the FTSE 250 Index for the period from 1 January 2004 to 31 December 2008. TSR is defined as share price growth plus reinvested dividends. The FTSE 250 index is used for comparison, being the equity index of which Marshalls plc has been a constituent member for most of the period under review. Marshalls has a TSR for the five year period of -53.6 per cent compared to a TSR provided by the FTSE 250 Index of 25.7 per cent.

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### External Board Appointments

The Committee considers that external directorships provide the Executive Directors with a valuable opportunity to broaden their knowledge and experience and that such appointments are of benefit to the Company. The Committee believes that it is reasonable for the individual Director to retain any fees received from such appointments given the additional personal responsibility that this entails.

### Service Contracts \*

Each of the Executive Directors has a service contract with the Company which is terminable by the Company on not more than twelve months' notice and by the Director on six months' notice.

These contracts do not contain liquidated damages clauses. If a contract is to be terminated, the Committee will determine such mitigation as it considers fair and reasonable in each case. In determining any compensation, it will take into account the best practice provisions of the Code and will take legal advice on the Company's liability to pay compensation and the appropriate amount. The Committee periodically considers what

compensation commitments the Executive Directors' contracts would entail in the event of early termination.

There are no contractual arrangements that would guarantee a pension with limited or no abatement on severance or early retirement.

The Company's practice is to appoint the Non-Executive Directors, including the Chairman, under letters of appointment. Their appointment is 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 6 months' notice. If the unexpired term is less than 6 months, notice does not need to be served.

There is no agreement between the Company and its Directors, or employees, providing for compensation for loss of office or employment that occurs because of a takeover bid.

Details of the appointment dates, notice periods and terms of appointment of Directors are set out below:

## Directors' Remuneration Report (continued)

	Appointment date	Notice period
Ian Burrell	June 2001	1 year
Graham Holden	August 1992	1 year
David Sarti	November 2004	1 year
	Appointment date	Term of appointment
Mike Davies	October 2004, renewed September 2007	3 years
Andrew Allner	July 2003, renewed July 2006	3 years
Bill Hesselby	March 2005, renewed February 2008	3 years
Richard Scholes	July 2003, renewed July 2006	3 years

Mike Davies, Richard Scholes and David Sarti are due to retire by rotation at the Annual General Meeting in May 2009. All are eligible for re-election.

### Pension Benefits \*

The Marshalls plc Pension Scheme (the "Scheme") has two Sections: the Final Salary Section which was closed to new members in 2000 and closed to future service accrual in 2006, and a Defined Contribution Section.

Graham Holden, Ian Burrell and David Sarti are members of the Defined Contribution Section of the Scheme. The Company makes a contribution of 30 per cent of their basic salary and they are required to make a minimum contribution of 6, 4 and 3 per cent respectively of their basic salary. They are eligible for a lump sum payment and dependants' pension benefits on death in service.

Executive Directors may take a salary supplement in place of the Company's contribution to the Scheme on

the basis that the salary supplement is set at a level which would incur no additional cost for the Company. In this case, other Scheme benefits, such as life assurance, remain unchanged.

As Graham Holden was previously in the Final Salary Section of the Scheme, he is entitled to a deferred pension under this Section. The Scheme provides for a pension for dependants and, in the event of death within the first five years following the date of retirement, a lump sum payment equal to the balance of the pension entitlement for that five year period. The pension entitlement shown below is that which was preserved in the Scheme when he ceased to be an active member of the Final Salary Section on 30 June 2006.

	Age at 31 December 2008	Years of service at 31 December 2008	Accrued entitlement 31 December 2008 £'000	Increase in accrued entitlement earned during the year £'000	Transfer value of pension increase earned in year £'000
Graham Holden	49	22	142	nil	nil

Details of accrued pension valued on a transfer basis as required under the Directors' Remuneration Report Regulations 2002 are as follows:

	Transfer value as at 31 December 2008 £'000	Transfer value as at 31 December 2007 £'000	Increase in transfer value less member's contribution over the year £'000
Graham Holden	2,415	1,763	652

### Notes to Pension Entitlements

- (a) The transfer value has been calculated in accordance with Actuarial Guidance Note GN11 less transfer value and Director's contributions. The 2008 calculation reflects regulations becoming effective on 1 October 2008. If the 2007 transfer value were calculated on a similar basis the increase over the period would be £328,000.

The Remuneration Report was approved by the Board and signed on its behalf by:

Andrew Allner  
Chairman of the Remuneration Committee  
6 March 2009



# Report of the Audit Committee

The Board has an established Audit Committee. Each of its members is an independent Non-Executive Director. The Board is satisfied that this Committee includes members that have recent and relevant financial experience required by the Code. Richard Scholes, who is the Chairman and Andrew Allner are both Chartered Accountants.

The main role and responsibilities of the Audit Committee are set out in written Terms of Reference which were reviewed during the year and are available on the Company's website at [www.marshalls.co.uk](http://www.marshalls.co.uk).

The Audit Committee has primary responsibility for making a recommendation on the appointment, re-appointment and removal of the external auditor to the Board, to put to shareholders for their approval at the Annual General Meeting. It keeps under review the scope and results of the audit, its cost-effectiveness and the independence and objectivity of the auditor. Any work awarded to the external auditors with a value in excess of £25,000, or in aggregate a value exceeding £50,000 in any financial year, other than audit and tax compliance, requires the specific approval of the Audit Committee. Where the Committee perceives that the independence of the auditors could be compromised, the work will not be awarded to the external auditors. Details of amounts paid to the external auditors for audit and non-audit services in 2008 are analysed in Note 3 on page 71. The aggregate amount paid to other firms of accountants for non-audit services was £153,000 (2007: £205,000) and this included costs in respect of the Group's internal audit programme.

This Committee reviews the Half-yearly and Annual Financial Statements before submission to the Board and reviews the effectiveness of the Group's internal control system.

The Audit Committee reviews the planned internal audit programme. The results of all assignments have been reported to the Audit Committee during the year. These assignments form part of a much wider programme of independently audited aspects of the Group's operations.

The Audit Committee has, during the year, reviewed the arrangements by which employees, and other people working for the Company, may in confidence raise concerns about possible improprieties in matters of financial reporting or other matters. The Company does have a Serious Concerns Policy (Whistleblowing Policy) which is available to all employees. It is displayed on notice boards and on the Company's intranet. The policy sets out the procedure for employees to raise legitimate concerns about any wrong-doing without fear of criticism, discrimination or reprisal. The policy was reviewed during the year and the Audit Committee was satisfied that arrangements are in place for the proportionate and independent investigation of such matters and for appropriate follow-up action.

The Audit Committee monitors and reviews the effectiveness of internal control activities and during the year it considered whether there was a need for an in-house internal audit function. It concluded, having reviewed the current process where firms of external accountants (other than the Company's auditors) carry out regular internal audit assignments of a financial and systems nature, that this was the most effective means of managing the internal audit function, in addition to which the Audit Committee noted that the Company supported the work of the internal audit function with a self certification internal control process.

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

Richard Scholes  
Chairman of the Audit Committee  
6 March 2009

# Independent Auditors' Report to the Members of Marshalls plc

We have audited the Group and Parent Company Financial Statements (the "Financial Statements") of Marshalls plc for the year ended 31 December 2008 which comprise the Consolidated Income Statement, the Consolidated and Parent Company Balance Sheets, the Consolidated Cash Flow Statement, the Consolidated Statement of Recognised Income and Expense, the Parent Company Reconciliation of Movement in Shareholders' Funds and the related Notes. These Financial Statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. 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.

## Respective responsibilities of Directors and Auditors

The Directors' responsibilities for preparing the Annual Report and the Group Financial Statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU, and for preparing the Parent Company Financial Statements and the Directors' Remuneration Report in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities on pages 36 and 37.

Our responsibility is to audit the Financial Statements and the part of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the Financial Statements give a true and fair view and whether the Financial Statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985 and, as regards the Group Financial Statements, Article 4 of the IAS Regulation. We also report to you whether, in our opinion, the information given in the Directors' Report is consistent with the Financial Statements. The information given in the Directors' Report includes that specific information presented in the Operating and Financial Review that is cross referred from the Business Review Section of the Directors' Report.

In addition we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and other transactions is not disclosed.

We review whether the Corporate Governance Statement reflects the Company's compliance with the nine provisions of the 2006 Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read the other information contained in the Annual Report and consider whether it is consistent with the audited Financial Statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Financial Statements. Our responsibilities do not extend to any other information.

### Basis of audit opinion


We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Financial Statements and the part of the Directors' Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgments made by the Directors in the preparation of the Financial Statements, and of whether the accounting policies are appropriate to the Group's and Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Financial Statements and the part of the Directors' Remuneration Report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the Financial Statements and the part of the Directors' Remuneration Report to be audited.

### Opinion

In our opinion:

- the Group Financial Statements give a true and fair view, in accordance with IFRSs as adopted by the EU, of the state of the Group's affairs as at 31 December 2008 and of its loss for the year then ended;
- the Group Financial Statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation;
- the Parent Company Financial Statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the Parent Company's affairs as at 31 December 2008;
- the Parent Company Financial Statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the Financial Statements.



KPMG Audit Plc  
Chartered Accountants  
Registered Auditor  
1 The Embankment  
Neville Street  
Leeds  
6 March 2009

# Consolidated Income Statement

for the year ended 31 December 2008

		Before works closure costs and asset impairments 2008 £'000	Works closure costs and asset impairments 2008 £'000	Total 2008 £'000	Total 2007 £'000
	Notes				
<b>Revenue</b>	2	<b>378,063</b>	-	<b>378,063</b>	402,926
<b>Net operating costs</b>	3,4	<b>(347,447)</b>	<b>(26,989)</b>	<b>(374,436)</b>	(354,116)
<b>Operating profit</b>	2	<b>30,616</b>	<b>(26,989)</b>	<b>3,627</b>	48,810
Financial expenses	6	<b>(19,627)</b>	-	<b>(19,627)</b>	(17,596)
Financial income	6	<b>11,473</b>	-	<b>11,473</b>	10,889
<b>Profit/(loss) before tax</b>	2	<b>22,462</b>	<b>(26,989)</b>	<b>(4,527)</b>	42,103
Income tax expense	7	<b>(6,250)</b>	<b>4,556</b>	<b>(1,694)</b>	(11,852)
<b>Profit/(loss) for the financial period attributable to equity shareholders of the parent</b>	22	<b>16,212</b>	<b>(22,433)</b>	<b>(6,221)</b>	30,251
<b>Earnings per share:</b>					
Basic	9	<b>11.61p</b>		<b>(4.46)p</b>	21.28p
Diluted	9	<b>11.47p</b>		<b>(4.46)p</b>	21.19p
<b>Dividend:</b>					
Pence per share	8			<b>13.85p</b>	13.40p
Dividends declared	8			<b>19,374</b>	19,098

The notes on pages 61 to 99 form part of the Consolidated Financial Statements.

# Consolidated Balance Sheet

at 31 December 2008

	Notes	2008 £'000	2007 £'000
<b>Assets</b>			
<b>Non-current assets</b>			
Property, plant and equipment	10	216,888	209,313
Intangible assets	11	41,351	60,147
Investment in associates	12	2,113	-
Employee benefits	20	16,501	-
Deferred taxation assets	21	762	7,055
		<u>277,615</u>	<u>276,515</u>
<b>Current assets</b>			
Inventories	13	89,814	82,920
Trade and other receivables	14	32,225	42,866
Cash and cash equivalents	15	538	19
Assets held for sale	16	-	8,199
		<u>122,577</u>	<u>134,004</u>
<b>Total assets</b>		<u>400,192</u>	<u>410,519</u>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Bank overdraft	15	-	27,840
Trade and other payables	17	61,780	60,236
Corporation tax		3,855	8,710
Interest bearing loans and borrowings	18	23,429	7,234
		<u>89,064</u>	<u>104,020</u>
<b>Non-current liabilities</b>			
Interest bearing loans and borrowings	18	88,439	61,871
Employee benefits	20	-	17,795
Deferred taxation liabilities	21	29,452	26,192
		<u>117,891</u>	<u>105,858</u>
<b>Total liabilities</b>		<u>206,955</u>	<u>209,878</u>
<b>Net assets</b>		<u>193,237</u>	<u>200,641</u>
<b>Equity</b>			
<b>Capital and reserves attributable to equity shareholders of the parent</b>			
Share capital	22	35,777	35,777
Share premium account	22	2,734	2,734
Own shares	22	(9,472)	(8,866)
Capital redemption reserve	22	75,394	75,394
Consolidation reserve	22	(213,067)	(213,067)
Hedging reserve	22	(124)	(3)
Retained earnings	22	301,995	308,672
<b>Equity shareholders' funds</b>		<u>193,237</u>	<u>200,641</u>

Approved at a Directors' meeting on 6 March 2009.

On behalf of the Board:

D.G. Holden  
Chief Executive



I.D. Burrell  
Finance Director



The notes on pages 61 to 99 form part of these Consolidated Financial Statements.

## Consolidated Cash Flow Statement

for the year ended 31 December 2008

	Notes	2008 £'000	2007 £'000
Net cash flow from operating activities	23(i)	21,878	27,666
Net cash flow from investing activities	23(ii)	(16,302)	(41,577)
Net cash flow from financing activities	23(iii)	22,783	(12,933)
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>28,359</b>	<b>(26,844)</b>
Cash and cash equivalents at 1 January		(27,821)	(977)
<b>Cash and cash equivalents at 31 December</b>	15	<b>538</b>	<b>(27,821)</b>

## Reconciliation of Net Cash Flow to Movement in Net Debt

	Notes	2008 £'000	2007 £'000
Net increase/(decrease) in cash and cash equivalents		28,359	(26,844)
Cash inflow from increase in debt and lease financing		(42,763)	(14,890)
Finance leases acquired on acquisition of subsidiary undertakings		-	(586)
<b>Movement in net debt in the period</b>		<b>(14,404)</b>	<b>(42,320)</b>
<b>Net debt at 1 January</b>		<b>(96,926)</b>	<b>(54,606)</b>
<b>Net debt at 31 December</b>	24	<b>(111,330)</b>	<b>(96,926)</b>

## Consolidated Statement of Recognised Income and Expenses

	2008 £'000	2007 £'000
Cash flow hedges: Effective portion of changes in fair value (net of deferred taxation)	(121)	3
Actuarial gains (net of deferred taxation)	19,912	12,610
Net expense recognised directly in equity	19,791	12,613
(Loss)/profit for the financial period attributable to equity shareholders of the parent	(6,221)	30,251
<b>Total recognised income and expenses for the period (attributable to equity shareholders of the parent)</b>	<b>13,570</b>	<b>42,864</b>

# Notes to the Consolidated Financial Statements

## 1 Accounting policies

### Significant accounting policies

Marshall's plc (the "Company") is a company domiciled in the United Kingdom. The Consolidated Financial Statements of the Company for the year ended 31 December 2008 comprise the Company and its subsidiaries (together referred to as the "Group").

The Consolidated Financial Statements were authorised for issue by the Directors on 6 March 2009.

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 following published accounting standards are not yet effective:

- IFRS8 - "*Operating Segments*" (1 January 2009) - Financial information is required to be reported on the same basis as is used internally for evaluating operating segment performance and deciding how to allocate resources. Further information relating to the Group's operating segments is included in Note 2.
- IFRIC14 - "*The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*" (1 January 2009) - This clarifies when refunds or reductions in future contributions in relation to defined benefit assets should be regarded as available and provides guidance on the impact of minimum funding requirements (MFR) on such assets. It also addresses when a MFR might give rise to a liability. IFRIC14 will become mandatory for the Group's 2009 Financial Statements with retrospective application required. The Group does not expect this to impact on the Financial Statements as the Group has an unconditional right to a surplus.
- Revised IAS 23 "*Borrowing Costs*" (mandatory for the year commencing on or after 1 January 2009).
- Revised IAS 1 "*Presentation of Financial Statements*" (mandatory for the year commencing on or after 1 January 2009).
- Revised IAS 27 "*Consolidated and Separate Financial Statements*" (mandatory for the year commencing on or after 1 July 2009).
- Amendments to IFRS 2 "*Share based payment - Vesting Conditions and Cancellations*" (mandatory for the year commencing on or after 1 January 2009).

### (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 UK GAAP; these are presented on pages 100 to 106.

### (b) Basis of preparation

The Consolidated Financial Statements have been prepared on the basis of the requirements of adopted IFRSs in issue and adopted by the EU and effective at 31 December 2008.

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Operating and Financial Review on pages 6 to 23. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are also set out in the Operating and Financial Review on pages 6 to 23. 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 and are subject to normal covenant arrangements. The Group's on-demand overdraft facility is renewed on an annual basis. As part of the planned maturity profile certain loans mature within the next twelve months. As noted in the Operating and Financial Review, the Group's performance is dependent on economic and market conditions, the outlook for which is uncertain and difficult to predict. The Group has taken decisive action to align its operational capacity with expected market conditions and, based on current expectations,



# Notes to the Consolidated Financial Statements (continued)

## 1 Accounting policies (continued)

### (b) Basis of preparation (continued)

the Group's cash forecasts meet half-year and year end bank covenants and there is adequate headroom which is not dependent on facility renewals. The Directors believe that the Group is well placed to manage its business risks successfully despite the current uncertain economic outlook. Accordingly, they continue to adopt the going concern basis in preparing the Group Consolidated Financial Statements.

The Financial Statements are prepared on the historical cost basis. Non-current assets held for sale are stated at the lower of previous carrying amount and fair value less costs to sell.

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](http://www.marshalls.co.uk)).

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

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

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

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

#### (ii) Associates (equity accounted investees)

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

#### (iii) Transactions eliminated on consolidation

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

## **1 Accounting policies (continued)**

### **(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.

### **(e) Derivative financial instruments**

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

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

### **(f) Hedging**

#### **(i) Cash flow hedges**

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

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

#### **(ii) Economic hedges**

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

### **(g) Property, plant and equipment**

#### **(i) Owned assets**

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

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

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

# Notes to the Consolidated Financial Statements (continued)

## 1 Accounting policies (continued)

### (g) Property, plant and equipment (continued)

#### (ii) Leased assets

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

#### (iii) Subsequent costs

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

#### (iv) Depreciation

Depreciation is charged to the Consolidated Income Statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Depreciation on leased assets is charged over the shorter of the lease term and their useful economic life. Freehold land is not depreciated. The rates are as follows:

Freehold and long leasehold buildings	-	2.5% to 5% per annum
Short leasehold property	-	over the period of the lease
Fixed plant and equipment	-	5% to 25% per annum
Mobile plant and vehicles	-	14% to 30% per annum
Mineral reserves	-	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. Depreciation commences when commercial extraction commences and is based on the rate of extraction.

Provisions for the cost of quarry restoration are recorded once a present legal or constructive obligation exists, it is probable that an outflow of economic benefits will be required to settle the obligation and the financial cost of restoration work can be reliably measured.

### (h) Non-current assets held for sale

Non-current assets classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell. Non-current 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 the asset is available for immediate sale in its present condition.

## 1 Accounting policies (continued)

### (i) Intangible assets

#### (i) Goodwill

All business combinations are accounted for by applying the purchase method. Goodwill represents consideration given by the acquirer in anticipation of future economic benefits from assets that are not capable of being individually identified and separately recognised. 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.

In respect of acquisitions prior to this date, 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 no longer amortised but is tested annually for impairment (see accounting policy m).

Negative goodwill arising on an acquisition is recognised directly in the Consolidated Income Statement.

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 meet the recognition criteria for development expenditure as set out in IAS 38 – "*Intangible Assets*." The expenditure capitalised includes all directly attributable costs, from the date which the intangible asset meets the recognition criteria, necessary to create, produce and prepare the asset to be capable of operating in the manner intended by management. Other development expenditure is recognised in the Consolidated Income Statement as an expense as incurred. Capitalised development expenditure is stated at cost less accumulated amortisation (see below) and impairment losses (see accounting policy m).

#### (iii) Other intangible assets

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

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

#### (iv) Subsequent expenditure

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

#### (v) Amortisation

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

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

# Notes to the Consolidated Financial Statements (continued)

## 1 Accounting policies (continued)

### (j) Trade and other receivables

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

### (k) 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.

### (l) 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.

### (m) Impairment

#### (i) Impairment review

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

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

An impairment loss is recognised whenever the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. Impairment losses are recognised in the Consolidated Income Statement.

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

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

#### (ii) Reversals of impairments

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

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

## **1 Accounting policies (continued)**

### **(n) Share capital**

#### **(i) Share capital**

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

#### **(ii) Dividends**

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

### **(o) Interest-bearing borrowings**

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

### **(p) Pension schemes**

#### **(i) Defined benefit schemes**

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

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

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 Recognised Income and Expenses.

#### **(ii) Defined contribution schemes**

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

### **(q) Share-based payment transactions**

The Group enters into equity-settled share-based payment transactions with its employees. In particular, annual awards are made to Directors under a Long Term Incentive Plan.

The Long Term Incentive Plan allows Group 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. 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 share options that vest.

Current tax relief is available based on the intrinsic value of shares issued at exercise date. Consequently, a deferred tax asset is recognised at grant date based on the number of shares expected to be issued proportioned in line with the vesting period.



# Notes to the Consolidated Financial Statements (continued)

## 1 Accounting policies (continued)

### (r) Own shares held by Employee Benefit Trust

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

### (s) Provisions

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

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

### (t) Trade and other payables

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

### (u) Revenue

Revenue from the sale of goods is recognised in the Consolidated Income Statement when the significant risks and rewards of ownership of the goods have been transferred to the buyer. No revenue is recognised if there is continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold.

Revenue from services rendered is recognised in the Consolidated Income Statement in proportion to the stage of completion of the transaction at the balance sheet date. The stage of completion is assessed by reference to surveys of work performed.

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

### (v) Expenses

#### (i) Operating lease payments

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

#### (ii) Finance lease payments

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

#### (iii) Financial expenses

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



## **1 Accounting policies (continued)**

### **(w) Income tax**

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

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

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

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

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

### **(x) Segment reporting**

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

# Notes to the Consolidated Financial Statements (continued)

## 2 Segmental analysis

	Revenue		Operating profit (before works closure costs and asset impairments)		Operating profit	
	2008 £'000	2007 £'000	2008 £'000	2007 £'000	2008 £'000	2007 £'000
Continuing operations	<b>378,063</b>	402,926	<b>30,616</b>	48,810	<b>3,627</b>	48,810
Financial income and expenses (net)					<b>(8,154)</b>	(6,707)
(Loss) / profit before tax					<b>(4,527)</b>	42,103

### Operating Segments

The Directors continue to report the Group's operations as a single business segment. The Directors consider that the continuing operations represent one product offering with similar risks and rewards and should be managed as a single business segment in line with the Group's internal reporting framework.

The Group has adopted IFRS 8, "Operating Segments", with effect from 1 January 2009. IFRS 8 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. In contrast, the predecessor standard (IAS 14, "Segment Reporting") required the Group to identify segments based on a risks and rewards approach, with recognition given to the Group's internal reporting framework.

Detailed consideration has been given to the Group's overall business strategy and this is explained in detail in the Operating and Financial Review on pages 6 to 23. The fundamental strategic objectives remain as follows:

- to develop, improve, reduce cost and innovate in our unique manufacturing and distribution network;
- to invest in sales and marketing direct to the consumer to "pull through demand" and build brand awareness;
- to continue to develop the integrated product offer for the Public Sector and Commercial market; and
- to invest in acquisitions and organic expansion to develop our business.

At Marshalls the CODM is regarded as being the Executive Board. These strategic objectives increasingly require the CODM to view the business on a national and a Group level. The Group's national manufacturing plan, in conjunction with a single logistics and distribution operation, support both of the Group's key markets, namely the Domestic and Public Sector and Commercial markets. Whilst KPI information is available to the CODM from the different functional areas of the business to support the Group strategy objectives, "performance assessment" and "resource allocation" continue to be addressed on a Group basis. Production, logistics and sales are operated together and the Group's organisational and management structure is also aligned in this way.

The Directors have undertaken a review of the requirements of IFRS 8 and, for these reasons outlined above, have concluded that with effect from 1 January 2009 the Group will continue to operate as a single business segment. In order to assist the reader of the Annual Report some revenue information has been presented in the Operating and Financial Review relating to the Group's Domestic and Public Sector and Commercial markets.

	2008 £'000	2007 £'000
Geographical destination of revenue:		
United Kingdom	<b>374,830</b>	400,253
Rest of the world	<b>3,233</b>	2,673
	<b>378,063</b>	402,926

All revenue originates in the United Kingdom from continuing operations and there is no material inter-segmental turnover. Included within revenue is £3,630,000 (2007: £2,953,000) relating to the provision of installation services.

### 3 Net operating costs

	2008 £'000	2007 £'000
Raw materials and consumables	124,366	135,423
Changes in inventories of finished goods and work in progress	(8,487)	(12,460)
Personnel costs (Note 5)	91,986	91,845
Depreciation - owned	21,168	20,368
- leased	270	691
Own work capitalised	(2,132)	(2,516)
Manufacturing overheads	117,429	118,189
Amortisation of intangible fixed assets (Note 11)	841	661
Negative goodwill	-	(700)
Restructuring costs	-	1,766
Strategic business initiatives: Domestic Expansion*	4,099	3,627
Strategic business initiatives: Commercial Expansion*	1,371	712
Site closure costs*	-	160
Share of results of associates	69	-
Operating costs	350,980	357,766
Other operating income	(1,304)	(1,493)
Net profit on asset and property disposals*	(2,229)	(2,157)
<b>Net operating costs before works closure costs and asset impairments</b>	<b>347,447</b>	<b>354,116</b>
Works closure costs and asset impairments (Note 4)	26,989	-
<b>Net operating costs</b>	<b>374,436</b>	<b>354,116</b>

\* These items are not included in the Group's definition of underlying profit which is set out in the Operating and Financial Review on pages 6 to 23.

Net operating costs include:	2008 £'000	2007 £'000
Auditors' remuneration (in respect of the audit of the Group Financial Statements)		
Marshall's plc	20	20
Subsidiaries	107	105
Other fees paid to the auditors and their associates (see below)	33	34
Leasing costs	6,699	6,060
Hire of plant and machinery	4,485	3,860
Research and development costs	3,671	4,077

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

	2008 £'000	2007 £'000
Corporation tax compliance procedures	7	8
Other tax services	13	13
Other	13	13
	<b>33</b>	<b>34</b>

## Notes to the Consolidated Financial Statements (continued)

### 4 Works closure costs and asset impairments

	2008 £'000	2007 £'000
Works closure costs	17,677	-
Asset impairments	9,312	-
	<u>26,989</u>	<u>-</u>

The Board has determined that certain charges to the Consolidated Income Statement should be separately identified for better understanding of the Group's results for the year ended 31 December 2008.

Works closure costs reflect the impact of capacity reductions and the closure of concrete manufacturing operations at Cannock, Sawley and Hambrook. Works closure costs also include the cost of reducing the design, managed installations and Display Centre part of the Group's Consumer Initiatives.

Asset impairments include £8,912,000 which represents the full amount of goodwill that was being carried in the Group balance sheet in respect of the Premier Mortars, Compton and Scenic Blue businesses (Note 11). Premier Mortars supplies ready to use mortar to the housebuilding market, Compton supplies pre-fabricated garages to the consumer and Scenic Blue was part of the Managed Installations initiative. These businesses have been particularly affected by the deterioration in current market conditions and the short term outlook remains challenging. In addition, intangible assets totalling £400,000 have been impaired relating to the Group's Consumer Initiatives (Note 11).

### 5 Personnel costs

	2008 £'000	2007 £'000
Personnel costs (including Directors):		
Wages and salaries	81,939	81,270
Social security costs	8,292	8,208
Share based expenses (Note 20)	(994)	744
Contributions to defined contribution Pension Scheme	2,749	2,722
Past service credit for defined benefit Pension Scheme	-	(1,099)
	<u>91,986</u>	<u>91,845</u>

Details of Directors' remuneration, share options, long term incentive plans and Directors' pension entitlements are disclosed in the Directors' Remuneration Report on pages 44 to 54.

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

	2008 Number	2007 Number
Continuing operations	<u>2,774</u>	<u>2,804</u>

## 6 Financial expenses and income

	2008 £'000	2007 £'000
<b>(a) Financial expenses</b>		
Interest expense on bank loans, overdrafts and loan notes	6,219	4,721
Interest on obligations under the defined benefit Pension Scheme	11,106	10,506
Debenture interest expense	2,275	2,275
B share dividend expense	-	42
Finance lease interest expense	27	52
	<b>19,627</b>	<b>17,596</b>
<b>(b) Financial income</b>		
Expected return on Scheme assets under the defined benefit Pension Scheme	11,148	10,875
Interest receivable and similar income	325	14
	<b>11,473</b>	<b>10,889</b>

## 7 Income tax expense

	Before works closure costs and asset impairments 2008 £'000	Works closure costs and asset impairments 2008 £'000	Total 2008 £'000	2007 £'000
<b>Current tax expense</b>				
Current year	3,083	(2,005)	1,078	11,027
Adjustments for prior years	(1,241)	-	(1,241)	(1,321)
	<b>1,842</b>	<b>(2,005)</b>	<b>(163)</b>	<b>9,706</b>
<b>Deferred taxation expense</b>				
Origination and reversal of temporary differences:				
Current year	4,655	(2,551)	2,104	1,983
Adjustments for prior years	(247)	-	(247)	163
	<b>6,250</b>	<b>(4,556)</b>	<b>1,694</b>	<b>11,852</b>
<b>Income tax expense in the Consolidated Income Statement</b>				
	<b>6,250</b>	<b>(4,556)</b>	<b>1,694</b>	<b>11,852</b>
<b>Reconciliation of effective tax rate</b>	2008 %	2008 £'000	2007 %	2007 £'000
(Loss)/profit before tax	100.0	(4,527)	100.0	42,103
Tax using domestic corporation tax rate	28.0	(1,267)	30.0	12,631
Disallowed amortisation/impairment of intangible assets	(61.2)	2,771	0.4	161
Net items not taxable	(37.1)	1,678	2.8	1,179
Adjustments for prior years	32.9	(1,488)	(2.7)	(1,158)
Impact of change in tax rate on deferred taxation	-	-	(2.3)	(961)
	<b>(37.4)</b>	<b>1,694</b>	<b>28.2</b>	<b>11,852</b>

The net amount of deferred taxation debited to the Consolidated Statement of Recognised Income and Expenses in the year was £7,696,000 (2007: £5,172,000) (Note 21).

# Notes to the Consolidated Financial Statements (continued)

## 8 Dividends

### Ordinary dividends: equity shares

	2008		2007	
	per share	£'000	per share	£'000
2007 Final: paid 4 July 2008	9.30p	13,009	8.85p	12,653
2008 Interim: paid 3 December 2008	4.55p	6,365	4.55p	6,445
	<b>13.85p</b>	<b>19,374</b>	<b>13.40p</b>	<b>19,098</b>

## 9 Earnings per share

Basic loss per share of 4.46 pence (2007: 21.28 pence earnings) per share is calculated by dividing the loss attributable to ordinary shareholders of £6,221,000 (2007: £30,251,000 profit) by the weighted average number of shares in issue during the year of 139,634,343 (2007: 142,159,560).

Basic earnings per share before works closure costs and asset impairments of 11.61 pence (2007: 21.28 pence) per share is calculated by dividing the profit before works closure costs and asset impairments of £16,212,000 (2007: £30,251,000) by the weighted average number of shares in issue during the year of 139,634,343 (2007: 142,159,560).

### (Loss)/profit attributable to ordinary shareholders

	2008 £'000	2007 £'000
Profit attributable to ordinary shareholders before works closure costs and asset impairments	16,212	30,251
Works closure costs and asset impairments (net of taxation)	(22,433)	-
(Loss)/profit attributable to ordinary shareholders:	<b>(6,221)</b>	<b>30,251</b>

### Weighted average number of ordinary shares

	2008	2007
Issued ordinary shares at 1 January	142,159,560	142,949,818
Effect of shares transferred into employee benefit trust	(100,217)	(366,765)
Effect of treasury shares	(2,425,000)	(423,493)
Weighted average number of ordinary shares at 31 December	<b>139,634,343</b>	<b>142,159,560</b>

The potential ordinary shares set out below are considered to be anti-dilutive to the total earnings per share calculation.

Diluted earnings per share before works closure costs and asset impairments of 11.47 pence (2007: 21.19 pence) per share is calculated by dividing the profit attributable to ordinary shares, and potentially dilutive ordinary shares, of £16,212,000 (2007: £30,251,000) by the weighted average number of shares in issue during the year of 139,634,343 (2007: 142,159,560) plus dilutive shares of 1,649,173 (2007: 572,479) which totals 141,283,516 (2007: 142,732,039).

### Weighted average number of ordinary shares (diluted)

	2008	2007
Weighted average number of ordinary shares at 31 December	139,634,343	142,159,560
Effect of shares transferred into employee benefit trust	1,046,911	523,201
Effect of treasury shares	602,262	49,278
Weighted average number of ordinary shares at 31 December	<b>141,283,516</b>	<b>142,732,039</b>

## 10 Property, plant and equipment

	Land, buildings and mineral reserves £'000	Plant, machinery and vehicles £'000	Total £'000
<b>Cost</b>			
At 1 January 2007	103,541	255,046	358,587
Transfer to assets held for sale	(8,508)	-	(8,508)
Transfer to intangible assets (Note 11)	-	(431)	(431)
Acquisitions through business combinations (Note 25)	1,341	4,385	5,726
Other acquisitions	7,553	25,052	32,605
Disposals	(1,945)	(2,250)	(4,195)
<b>At 31 December 2007</b>	<b>101,982</b>	<b>281,802</b>	<b>383,784</b>
At 1 January 2008	<b>101,982</b>	<b>281,802</b>	<b>383,784</b>
Transfer from intangible assets (Note 11)	<b>9,446</b>	-	<b>9,446</b>
Acquisitions through business combinations (Note 25)	<b>4,428</b>	<b>144</b>	<b>4,572</b>
Other acquisitions	<b>3,897</b>	<b>17,345</b>	<b>21,242</b>
Disposals	<b>(20)</b>	<b>(2,539)</b>	<b>(2,559)</b>
<b>At 31 December 2008</b>	<b>119,733</b>	<b>296,752</b>	<b>416,485</b>
<b>Depreciation and impairment losses</b>			
At 1 January 2007	24,532	131,114	155,646
Depreciation charge for the year	3,108	17,951	21,059
Transfer to assets held for sale	(309)	-	(309)
Transfer to intangible assets (Note 11)	-	(47)	(47)
Disposals	(291)	(1,800)	(2,091)
Reclassification	(83)	83	-
Transfer of impairment provisions from other creditors	-	213	213
<b>At 31 December 2007</b>	<b>26,957</b>	<b>147,514</b>	<b>174,471</b>
At 1 January 2008	<b>26,957</b>	<b>147,514</b>	<b>174,471</b>
Depreciation charge for the year	<b>3,176</b>	<b>18,262</b>	<b>21,438</b>
Disposals	<b>(20)</b>	<b>(1,948)</b>	<b>(1,968)</b>
Impairment losses	<b>2,246</b>	<b>3,410</b>	<b>5,656</b>
<b>At 31 December 2008</b>	<b>32,359</b>	<b>167,238</b>	<b>199,597</b>
<b>Net Book Value</b>			
At 1 January 2007	79,009	123,932	202,941
At 1 January 2008	75,025	134,288	209,313
<b>At 31 December 2008</b>	<b>87,374</b>	<b>129,514</b>	<b>216,888</b>



# Notes to the Consolidated Financial Statements (continued)

## 10 Property, plant and equipment (continued)

The carrying amount of tangible fixed assets includes £1,031,000 (2007: £1,242,000) in respect of assets held under finance leases.

Group cost of land and buildings and plant and machinery includes £1,360,000 (2007: £321,000) and £5,561,000 (2007: £6,260,000) respectively for assets in the course of construction.

### Capital commitments

	2008 £'000	2007 £'000
Capital expenditure that has been contracted for but for which no provision has been made in the Consolidated Financial Statements	3,698	3,567

## 11 Intangible assets

	Goodwill	Customer relationships	Supplier relationships	Patents, trademarks and know-how	Development costs	Software	Total
Cost	£'000	£'000	£'000	£'000	£'000	£'000	£'000
At 1 January 2007	46,264	2,210	2,400	2,305	159	-	53,338
Transfer from property, plant and equipment (Note 10)	-	-	-	-	-	431	431
Acquisition through business combinations (Note 25)	6,355	-	-	300	-	-	6,655
Additions	-	-	-	-	-	1,102	1,102
<b>At 31 December 2007</b>	<b>52,619</b>	<b>2,210</b>	<b>2,400</b>	<b>2,605</b>	<b>159</b>	<b>1,533</b>	<b>61,526</b>
At 1 January 2008	52,619	2,210	2,400	2,605	159	1,533	61,526
Transfer to land, buildings and mineral reserves (Note 10)	(9,446)	-	-	-	-	-	(9,446)
Additions	-	-	-	-	-	803	803
<b>At 31 December 2008</b>	<b>43,173</b>	<b>2,210</b>	<b>2,400</b>	<b>2,605</b>	<b>159</b>	<b>2,336</b>	<b>52,883</b>

## 11 Intangible assets (continued)

	Goodwill	Customer relationships	Supplier relationships	Patents, trademarks and know-how	Development costs	Software	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>Amortisation and impairment losses</b>							
At 1 January 2007	-	153	360	137	21	-	671
Transfer from property, plant and equipment (Note 10)	-	-	-	-	-	47	47
Amortisation for the year	-	148	134	246	8	125	661
<b>At 31 December 2007</b>	<b>-</b>	<b>301</b>	<b>494</b>	<b>383</b>	<b>29</b>	<b>172</b>	<b>1,379</b>
At 1 January 2008	-	301	494	383	29	172	1,379
Amortisation for the year	-	208	134	235	8	256	841
Impairment losses (Note 4)	8,912	-	-	400	-	-	9,312
<b>At 31 December 2008</b>	<b>8,912</b>	<b>509</b>	<b>628</b>	<b>1,018</b>	<b>37</b>	<b>428</b>	<b>11,532</b>
<b>Carrying amounts</b>							
At 1 January 2007	46,264	2,057	2,040	2,168	138	-	52,667
At 1 January 2008	52,619	1,909	1,906	2,222	130	1,361	60,147
<b>At 31 December 2008</b>	<b>34,261</b>	<b>1,701</b>	<b>1,772</b>	<b>1,587</b>	<b>122</b>	<b>1,908</b>	<b>41,351</b>

The transfer to tangible fixed assets is in respect of the goodwill arising on the acquisition of Lloyds Quarries and Clearwell Quarries which is now considered more properly to be classed as Property, Plant and Equipment comprising the mineral reserves of these businesses. The Group's depreciation policy on these reserves is set out on page 64. The transfer has no significant cumulative or current year income or reserves implications.

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. As detailed in Note 4, goodwill impairments totalling £8,912,000 have been made during the year primarily in respect of the Premier Mortars and Compton businesses which have been written down to their recoverable amounts. The recoverable amounts of the CGUs are determined from value in use calculations. These calculations use cash flow projections based on individual financial forecasts using appropriate growth rates approved by management. To prepare value in use calculations, the cash flow forecasts are discounted back to present value using an estimate of the Group's pre-tax weighted average cost of capital. The pre-tax discount rates used to calculate the value in use range from 10.5 per cent to 12.0 per cent (2007: 12.5 per cent to 14.0 per cent).

### Amortisation charge

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

	2008 £'000	2007 £'000
Net operating costs (Note 3)	841	661

# Notes to the Consolidated Financial Statements (continued)

## 12 Investment in associates

	2008 £'000	2007 £'000
Investment at cost - cash (Note 25)	2,176	-
- accrued fees	6	-
Share of results of associates	(69)	-
Carrying value at 31 December	<u>2,113</u>	<u>-</u>
Satisfied by:		
Cash consideration	2,007	-
Professional fees paid	169	-
Professional fees accrued	6	-
	<u>2,182</u>	<u>-</u>

On 4 January 2008 the Group acquired a 25 per cent stake in Creeton Quarry Limited, a natural stone quarrying business, and on 12 August 2008 a 25 per cent investment was made in Oathill Quarry Limited, an additional quarrying business. The results, assets and liabilities are included in these Financial Statements using the equity method of accounting.

## 13 Inventories

	2008 £'000	2007 £'000
Raw materials and consumables	11,426	12,318
Finished goods and goods for resale	78,388	70,602
	<u>89,814</u>	<u>82,920</u>

## 14 Trade and other receivables

	2008 £'000	2007 £'000
Trade receivables	25,240	35,731
Other receivables	2,168	1,931
Prepayments and accrued income	4,817	5,204
	<u>32,225</u>	<u>42,866</u>

### Ageing of trade receivables

	2008 £'000	2007 £'000
Less than 30 days	20,760	29,635
31 - 120 days	3,004	5,037
More than 120 days	1,476	1,059
	<u>25,240</u>	<u>35,731</u>

No receivables were due after more than one year. All amounts disclosed above are considered recoverable.

## 15 Cash and cash equivalents

	2008 £'000	2007 £'000
Bank balances	534	-
Cash in hand	4	19
	<u>538</u>	<u>19</u>
Bank overdraft	-	(27,840)
Cash and cash equivalents in the Consolidated Cash Flow Statement	<u>538</u>	<u>(27,821)</u>

## 16 Assets held for sale

During the year ended 31 December 2007 the Board resolved to dispose of certain properties and negotiations with several interested parties subsequently took place. These properties, which at 31 December 2007 were all expected to be sold within twelve months, were classified as assets held for sale and presented separately in the 31 December 2007 balance sheet. The proceeds of disposal were expected to (and subsequently did) exceed the book value of the related assets and accordingly no impairment losses were recognised on the classification of these operations as held for sale.

## 17 Trade and other payables

	2008 £'000	2007 £'000
<b>Current liabilities</b>		
Trade payables	31,708	31,403
Taxation and social security	4,575	5,596
Other payables	4,426	5,210
Accruals	21,071	18,027
	<u>61,780</u>	<u>60,236</u>

All trade payables are due in six months or less.

# Notes to the Consolidated Financial Statements (continued)

## 18 Loans

	2008 £'000	2007 £'000
<b>Current liabilities</b>		
Bank loans	23,327	7,000
Finance lease liabilities	102	234
	<b>23,429</b>	<b>7,234</b>
<b>Non-current liabilities</b>		
Bank loans	68,400	41,727
11.375% debenture stock 1992/2014	20,000	20,000
Finance lease liabilities	39	144
	<b>88,439</b>	<b>61,871</b>

### Debenture stock

The 11.375 per cent debenture stock 1992/2014 which is secured by a first floating charge on the assets of Marshalls Group plc and certain subsidiary undertakings is repayable at par on 30 June 2014, or at the Company's option, between 1 January 1992 and 30 June 2014, at a price related to the gross redemption yield of the 12 per cent Exchequer Stock 2013/2017.

### Bank loans

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

### Finance lease liabilities

	Minimum lease 2008 £'000	2008 Interest 2008 £'000	Principal 2008 £'000	Minimum lease 2007 £'000	2007 Interest 2007 £'000	Principal 2007 £'000
Less than one year	115	13	102	262	28	234
Between one and five years	45	6	39	168	24	144
	<b>160</b>	<b>19</b>	<b>141</b>	<b>430</b>	<b>52</b>	<b>378</b>

## **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 has in issue the following non-equity funding instruments, further details of which are set out in Note 18:

- Debenture stock
- Bank loans
- Finance lease liabilities

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 and exchange rate risk. The Board reviews and agrees the policies for managing each of these risks and they have remained unchanged since 2007.

### **Capital management**

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.

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 Long Term Incentive Plan. Buy and sell decisions are made on a specific transaction basis by the Board.

### **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 Operational and Financial Review on pages 6 to 23. The key financial risks resulting from financial instruments are liquidity risk, interest rate risk, credit risk and foreign currency risk.

#### **(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. The capital structure of the Group consists of equity attributable to equity shareholders of the Company and reserves, as disclosed in Note 22.

#### **(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 would consider using interest rate swaps to generate the desired interest rate profile, thereby managing the Group's exposure to interest rate fluctuations.

#### **(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.

# Notes to the Consolidated Financial Statements (continued)

## 19 Financial instruments (continued)

### (c) Credit risk (continued)

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

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

### (d) Foreign currency risk

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

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

The Group classifies its forward exchange contracts hedging forecasted transactions as cash flow hedges and states them at fair value. The fair value of forward exchange contracts is £1,570,000 (2007: £538,000) and is adjusted against the hedging reserve on an ongoing basis. At 31 December 2008 all outstanding forward exchange contracts have a maturity date within one month.

### Other risks

Further information about the Group's strategic and financial risks is contained in the Operating and Financial Review on pages 6 to 23.

### Sensitivity analysis

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.

The principal risk relates to interest rates. A one per cent increase in interest rates would lead to an increase in the Group's financial expenses of approximately £1 million. A one per cent decrease in interest rates would reduce the Group's financial expenses by approximately £1 million.



## 19 Financial instruments (continued)

### Effective interest rates and maturity of liabilities

At 31 December 2008 18.0 per cent (2007: 20.6 per cent) of the Group's borrowings were on a fixed rate. The interest rate profile of the financial liabilities were:

31 December 2008	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
Cash and cash equivalents (Note 15)	Variable	5.87	(538)	(538)	-	-	-	-
Bank loans	Variable	5.87	91,727	-	23,327	-	68,400	-
11.375% debenture stock 1992/2014	Fixed	11.375	20,000	-	-	-	-	20,000
Finance lease liabilities	Variable	7.9	141	51	51	39	-	-
			<b>111,330</b>	<b>(487)</b>	<b>23,378</b>	<b>39</b>	<b>68,400</b>	<b>20,000</b>
31 December 2007	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
Cash and cash equivalents (Note 15)	Variable	6.04	27,821	27,821	-	-	-	-
Bank loans	Variable	6.04	48,727	-	7,000	23,327	18,400	-
11.375% debenture stock 1992/2014	Fixed	11.375	20,000	-	-	-	-	20,000
Finance lease liabilities	Variable	10.6	378	117	117	105	39	-
			<b>96,926</b>	<b>27,938</b>	<b>7,117</b>	<b>23,432</b>	<b>18,439</b>	<b>20,000</b>

### Borrowing facilities

The total borrowing facilities at 31 December 2008 amounted to £186.7 million (2007: £156.7 million) of which total bank borrowing facilities amounted to £166.7 million (2007: £136.7 million) and of which £75.0 million (2007: £60.2 million) remained unutilised. There are additional seasonal bank working capital facilities of £20.0 million available between 1 February 2009 and 31 August 2009. The undrawn facilities available at 31 December 2008, in respect of which all conditions precedent had been met, were as follows:

	2008 £'000	2007 £'000
Committed:		
- Expiring in more than two years but not more than five years	50,000	-
- Expiring in one year or less	-	-
Uncommitted:		
- Expiring in one year or less (with option to convert to committed)	-	43,000
- Expiring in one year or less	25,000	17,179
	<b>75,000</b>	<b>60,179</b>

# Notes to the Consolidated Financial Statements (continued)

## 19 Financial instruments (continued)

### Borrowing facilities

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

	Facility £'000	Cumulative Facility £'000
Committed facilities:		
Q2: 2014 (Debenture)	20,000	20,000
Q4: 2012	50,000	70,000
Q3: 2011	48,400	118,400
Q3: 2010	20,000	138,400
Q3: 2009	23,327	161,727
On demand facilities:		
Available all year	25,000	186,727
Seasonal (February to August inclusive)	20,000	206,727

### 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 2008 are shown below:

	2008		2007	
	Book amount £'000	Fair Value £'000	Book amount £'000	Fair value £'000
Trade and other receivables	32,225	32,225	42,866	42,866
Cash and cash equivalents	538	538	19	19
Bank overdrafts	-	-	(27,840)	(27,840)
Bank loans	(91,727)	(91,727)	(48,727)	(48,727)
11.375 per cent debenture stock 1992/2014	(20,000)	(26,593)	(20,000)	(27,905)
Finance lease liabilities	(141)	(141)	(378)	(378)
Trade and other payables	(61,780)	(61,780)	(60,236)	(60,236)
Corporation tax	(3,855)	(3,855)	(8,710)	(8,710)
Assets held for sale	-	-	8,199	8,199
Other assets/(liabilities) – net	337,977		315,448	
	<b>193,237</b>		<b>200,641</b>	

## 19 Financial instruments (continued)

### Estimation of fair values

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

#### (a) Derivatives

Forward exchange 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 relevant rate.

#### (c) Finance lease liabilities

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

#### (d) Trade and other receivables/payables

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

## 20 Employee benefits

The Group operates the Marshalls plc Pension Scheme (the "Scheme") which has both a defined benefit and a defined contribution section. The assets of the Scheme are held in separately managed funds which are independent of the Group's finances. The defined benefit section of the Scheme is closed to new members and future service accrual. Pension contributions, for both the employer and the employee, are made into the defined contribution section of the Scheme.

	2008 £'000	2007 £'000	2006 £'000	2005 £'000	2004 £'000
Present value of funded obligations	(167,312)	(194,782)	(209,152)	(212,245)	(176,703)
Fair value of Scheme assets	183,813	176,987	167,207	146,981	125,848
<b>Surplus in the Scheme / (net liability) for defined benefit obligations (see below)</b>	<b>16,501</b>	<b>(17,795)</b>	<b>(41,945)</b>	<b>(65,264)</b>	<b>(50,855)</b>
<b>Experience adjustments on Scheme liabilities</b>	<b>31,184</b>	<b>17,749</b>	<b>4,988</b>	<b>(28,123)</b>	<b>(7,137)</b>
<b>Experience adjustments on Scheme assets</b>	<b>(3,530)</b>	<b>33</b>	<b>5,501</b>	<b>15,881</b>	<b>6,146</b>

# Notes to the Consolidated Financial Statements (continued)

## 20 Employee benefits (continued)

### Movements in the surplus/(net liability) for defined benefit obligations recognised in the balance sheet

	2008 £'000	2007 £'000
Net liability for defined benefit obligations at 1 January	(17,795)	(41,945)
Contributions received	6,600	4,900
Gain recognised in the Consolidated Income Statement	42	1,468
Actuarial gains recognised in the Consolidated Statement of Recognised Income and Expenses	27,654	17,782
<b>Surplus in the Scheme / (net liability) for the defined benefit obligations at 31 December</b>	<b>16,501</b>	<b>(17,795)</b>

### Gain recognised in the Consolidated Income Statement

	2008 £'000	2007 £'000
Past service credit (net operating costs)	-	1,099
Interest on obligations (financial expenses)	(11,106)	(10,506)
Expected return on Scheme assets (financial income)	11,148	10,875
	<b>42</b>	<b>1,468</b>

Actuarial gains and losses on the defined benefit scheme are recognised in the period in which they occur in the Consolidated Statement of Recognised Income and Expenses.

## 20 Employee benefits (continued)

### Liabilities for defined benefit obligations

Principal actuarial assumptions at the balance sheet date (expressed as weighted averages):

	2008	2007
Discount rate (AA corporate bond rate)	6.7%	5.8%
Inflation	2.8%	3.2%
Future pension increases	2.8%	3.0%
Expected return on Scheme assets	6.0%	6.3%
Future expected lifetime of pensioner at age 65 (years):		
Male:	20.4	19.3
Female:	23.4	21.9

Changes in the present value of the defined benefit obligation are as follows:

	2008 £'000	2007 £'000
Benefit obligation at 1 January	194,782	209,152
Past service credit	-	(1,099)
Interest cost	11,106	10,506
Actuarial gain	(31,184)	(17,749)
Benefits paid	(7,392)	(6,028)
<b>Benefit obligation at 31 December</b>	<b>167,312</b>	<b>194,782</b>

Changes in the fair value of Scheme assets are as follows:

	2008 £'000	2007 £'000
Fair value of Scheme assets at 1 January	176,987	167,207
Expected return on Scheme assets	11,148	10,875
Actuarial (loss) / gain	(3,530)	33
Employer contribution	6,600	4,900
Benefits paid	(7,392)	(6,028)
<b>Fair value of Scheme assets at 31 December</b>	<b>183,813</b>	<b>176,987</b>

# Notes to the Consolidated Financial Statements (continued)

## 20 Employee benefits (continued)

The fair value of Scheme assets at the balance sheet date is analysed as follows:

	2008		2007	
	£'000	%	£'000	%
Equities	61,134	33	81,255	46
Bonds	19,327	11	50,740	29
Cash	4,207	2	5,246	3
Insured pensioners	1,323	1	1,534	1
Liability driven investments	97,822	53	38,212	21
	<u>183,813</u>	<u>100</u>	<u>176,987</u>	<u>100</u>

The expected return on assets for the period is calculated as the average of the expected long-term returns on the various asset classes, weighted by the Scheme's holdings of those asset classes.

The Scheme has no investments in the Company or in property occupied by the Company.

### Share-based payments

Share based payment awards have been made during the year in accordance with the rules of the Marshalls plc 2005 Long Term Incentive Plan (the "LTIP"). Under the LTIP rules Executive Directors are required to invest a minimum of 50 per cent of their annual bonus in the LTIP subject to the achievement of share ownership targets. Other eligible employees are entitled to invest a stated percentage of their annual bonus into the LTIP on a voluntary basis. The annual bonus investment is used to purchase Investment Shares and eligible employees receive a Matching Share award, subject to defined limits, and subject to the achievement of a three year earnings per share performance target.

The Matching Share award is dependent on an improvement in reported EPS measured using International Financial Reporting Standards and is subject to the discretion of the Remuneration Committee with regard to one off items. Full details of the performance criteria are set out in the Directors' Remuneration Report on pages 44 to 54.

The terms and conditions of the grants are as follows. All options are settled by physical delivery of shares. The exercise price is nil in relation to any of these grants and no entitlement to dividends during the vesting period. There are no market conditions associated with these instruments.

	Number of instruments	Date of grant	Vesting period
Equity settled awards granted to Directors of Marshalls plc	327,920	16 March 2007	3 years
	183,375	17 May 2007	3 years
	496,401	10 March 2008	3 years
	213,992	13 March 2008	3 years
Equity settled awards granted to employees of Marshalls Group plc	55,142	16 March 2007	3 years
	50,126	17 May 2007	3 years
	2,638	7 September 2007	3 years
	36,823	10 March 2008	3 years
	177,652	13 March 2008	3 years
	<u>1,544,069</u>		

## 20 Employee benefits (continued)

	Weighted average exercise price (pence per share) 2008	Number of options 2008	Weighted average exercise price (pence per share) 2007	Number of options 2007
Outstanding at 1 January	346	891,846	345	258,798
Granted	249	924,868	346	639,115
Forfeited	353	(28,584)	335	(6,067)
Lapsed	345	(244,061)	-	-
Outstanding at 31 December	288	1,544,069	346	891,846

There were no share options exercised or that expired during the period. None of the options were exercisable at 31 December 2008.

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

	13 March 2008 grant	10 March 2008 grant	7 September 2007 grant	17 May 2007 grant	16 March 2007 grant
Fair value at grant date (pence per share)	220	216	335	335	296
Share price on date of grant (pence per share)	248	249	379	379	326
Expected volatility used in the modelling under the Black-Scholes valuation model	14.0%	14.0%	14.0%	14.0%	14.0%
Dividend yield	4.0%	4.0%	4.0%	4.0%	4.0%
Risk-free interest rate (based on national government bonds)	5.25%	5.25%	5.50%	5.50%	5.25%

The Company's share price at 31 December 2008 was 90p.

The expected volatility is wholly based on the historic volatility (since the Scheme of Arrangement in July 2004), adjusted for any expected changes to future volatility due to publicly available information.

The total income / expenses recognised for the period arising from share based payments are as follows:

	2008 £'000	2007 £'000
Awards granted in 2007	-	744
Effect of changes in the number of shares expected to vest	(994)	-
Total (income)/expense recognised as employee costs	(994)	744

Further details in relation to the Directors are set out in the Directors' Remuneration Report on pages 44 to 54.

### Employee profit sharing scheme

At 31 December 2008 the scheme held 42,414 (2007: 42,414) ordinary shares in the Company.



## Notes to the Consolidated Financial Statements (continued)

### 21 Deferred taxation

#### Recognised deferred taxation assets and liabilities

	Assets		Liabilities	
	2008	2007	2008	2007
	£'000	£'000	£'000	£'000
Property, plant and equipment	-	-	(20,176)	(21,407)
Intangible assets (software)	-	-	(55)	(82)
Intangible assets acquired	-	-	(1,451)	(1,727)
Inventories	-	-	(872)	(840)
Employee benefits	-	4,983	(4,620)	-
Pension contributions	712	1,424	-	-
Equity settled share based expenses	-	278	-	-
Other items	50	370	(2,278)	(2,136)
<b>Tax assets/(liabilities)</b>	<b>762</b>	<b>7,055</b>	<b>(29,452)</b>	<b>(26,192)</b>

The deferred taxation liability of £4,620,000 (2007: £4,983,000 deferred taxation asset) in relation to employee benefits is in respect of the net surplus for the defined benefit obligations of £16,501,000 (2007: £17,795,000 net liability) (Note 20) calculated at 28 per cent (2007: 28 per cent).

Included within this movement is a recognition of a deferred taxation asset with a corresponding credit to deferred taxation expense in the Consolidated Income Statement in respect of the pension contributions. Current tax relief is obtained on total pension contributions of this magnitude over a four year period with relief in the current year based on 110 per cent of prior year contributions plus 25 per cent of the remaining total contributions.

## 21 Deferred taxation (continued)

### Movement in temporary differences

Year ended 31 December 2008	1 January 2008	Recognised in income	Recognised on acquisition of subsidiary undertakings	Recognised in equity	31 December 2008
	£'000	£'000	£'000	£'000	£'000
Property, plant and equipment	(21,407)	1,231	-	-	(20,176)
Intangible assets (software)	(82)	27	-	-	(55)
Intangible assets acquired	(1,727)	276	-	-	(1,451)
Inventories	(840)	(32)	-	-	(872)
Employee benefits	4,983	(1,861)	-	(7,742)	(4,620)
Pension contributions	1,424	(712)	-	-	712
Equity settled share based expenses	278	(278)	-	-	-
Other items	(1,766)	(508)	-	46	(2,228)
	<u>(19,137)</u>	<u>(1,857)</u>	<u>-</u>	<u>(7,696)</u>	<u>(28,690)</u>
Year ended 31 December 2007	1 January 2007	Recognised in income	Recognised on acquisition of subsidiary undertakings	Recognised in equity	31 December 2007
	£'000	£'000	£'000	£'000	£'000
Property, plant and equipment	(21,272)	228	(363)	-	(21,407)
Intangible assets (software)	-	(82)	-	-	(82)
Intangible assets acquired	(1,921)	278	(84)	-	(1,727)
Inventories	(900)	60	-	-	(840)
Employee benefits	12,584	(2,429)	-	(5,172)	4,983
Pension contributions	2,047	(623)	-	-	1,424
Equity settled share based expenses	75	203	-	-	278
Other items	(2,127)	219	142	-	(1,766)
	<u>(11,514)</u>	<u>(2,146)</u>	<u>(305)</u>	<u>(5,172)</u>	<u>(19,137)</u>

# Notes to the Consolidated Financial Statements (continued)

## 22 Capital and reserves

	Share capital	Share premium account	Own shares	Capital redemption reserve	Consolidation reserve	Hedging reserve	Retained earnings
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
At 1 January 2007	35,777	2,732	(453)	73,298	(213,067)	(6)	286,261
Purchase of own shares	-	-	(8,413)	-	-	-	-
Share based expenses	-	-	-	-	-	-	744
Share premium adjustment	-	2	-	-	-	-	-
Redemption of B shares	-	-	-	2,096	-	-	(2,096)
Profit for the financial period attributable to equity shareholders of the parent	-	-	-	-	-	-	30,251
Dividends to shareholders	-	-	-	-	-	-	(19,098)
Actuarial gain on defined benefit pension scheme	-	-	-	-	-	-	17,782
Decrease in fair value of hedging derivatives	-	-	-	-	-	3	-
Deferred taxation arising	-	-	-	-	-	-	(5,172)
Total movements in the year	-	2	(8,413)	2,096	-	3	22,411
<b>At 31 December 2007</b>	<b>35,777</b>	<b>2,734</b>	<b>(8,866)</b>	<b>75,394</b>	<b>(213,067)</b>	<b>(3)</b>	<b>308,672</b>
At 1 January 2008	35,777	2,734	(8,866)	75,394	(213,067)	(3)	308,672
Purchase of own shares	-	-	(606)	-	-	-	-
Share based expenses	-	-	-	-	-	-	(994)
Loss for the financial period attributable to equity share holders of the parent	-	-	-	-	-	-	(6,221)
Dividends to shareholders	-	-	-	-	-	-	(19,374)
Actuarial gain on defined benefit pension scheme	-	-	-	-	-	-	27,654
Increase in fair value of hedging derivatives	-	-	-	-	-	(167)	-
Deferred taxation arising	-	-	-	-	-	46	(7,742)
Total movements in the year	-	-	(606)	-	-	(121)	(6,677)
<b>At 31 December 2008</b>	<b>35,777</b>	<b>2,734</b>	<b>(9,472)</b>	<b>75,394</b>	<b>(213,067)</b>	<b>(124)</b>	<b>301,995</b>

## 22 Capital and reserves (continued)

### Share capital

	Authorised		Issued	
	2008 £'000	2007 £'000	2008 £'000	2007 £'000
At 31 December and 1 January	<u>75,000</u>	<u>75,000</u>	<u>35,777</u>	<u>35,777</u>
Number of 25 pence ordinary shares	<u>300,000,000</u>	<u>300,000,000</u>	<u>143,106,254</u>	<u>143,106,254</u>

### Capital redemption reserve

On 30 June 2007 4,658,304 B shares were redeemed at 45 pence per share and an amount of £2,096,000 was paid to shareholders. As a consequence of these redemptions, an amount of £2,096,000 was transferred to the capital redemption reserve from retained earnings.

### Consolidation reserve

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

### Dividends

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

	2008 £'000	2007 £'000
1.45 pence (2007: 9.30 pence) per ordinary share	<u>2,025</u>	<u>13,009</u>

# Notes to the Consolidated Financial Statements (continued)

## 23 Notes to the cash flow statement

	2008 £'000	2007 £'000
<b>23(i) Cash flows from operating activities</b>		
(Loss)/profit before tax	(4,527)	42,103
Adjustments for:		
Depreciation	21,438	21,059
Amortisation	841	661
Works closure costs and asset impairments	26,989	-
Share of results of associates	69	-
Negative goodwill	-	(700)
Gain on sale of property, plant & equipment	(2,705)	(2,856)
Equity settled share based expenses	(994)	744
Financial income and expenses (net)	8,154	6,707
<b>Operating cash flow before changes in working capital, employee benefits and pension scheme contributions</b>	<b>49,265</b>	<b>67,718</b>
Decrease/(increase) in trade and other receivables	10,924	(7,403)
Increase in inventories	(7,675)	(13,815)
(Decrease)/increase in trade and other payables	(5,227)	2,723
Works closure costs paid	(5,976)	-
Decrease in employee benefits	-	(1,099)
Pension scheme contributions	(6,600)	(4,400)
<b>Cash generated from the operations</b>	<b>34,711</b>	<b>43,724</b>
Financial expenses paid	(8,095)	(6,729)
Non equity dividends paid	-	(42)
Income tax paid	(4,738)	(9,287)
<b>Net cash flow from operating activities</b>	<b>21,878</b>	<b>27,666</b>
<b>23(ii) Cash flows from investing activities</b>		
Proceeds from sale of property, plant and equipment	11,495	2,960
Financial income received	325	14
Acquisition of subsidiaries and investments in associates	(6,077)	(12,604)
Bank overdraft acquired with subsidiaries	-	(240)
Acquisition of property, plant & equipment	(21,242)	(30,605)
Acquisition of intangible assets	(803)	(1,102)
<b>Net cash flow from investing activities</b>	<b>(16,302)</b>	<b>(41,577)</b>
<b>23(iii) Cash flows from financing activities</b>		
Payments to acquire own shares	(606)	(8,413)
Net decrease in other debt and finance leases	(237)	(414)
Redemption of B shares	-	(2,408)
Increase in borrowings	43,000	17,400
Equity dividends paid	(19,374)	(19,098)
<b>Net cash flow from financing activities</b>	<b>22,783</b>	<b>(12,933)</b>

## 24 Analysis of net debt

	1 January 2008	Cash flow	31 December 2008
	£'000	£'000	£'000
Cash at bank and in hand	19	519	538
Overdrafts	(27,840)	27,840	-
	<u>(27,821)</u>	<u>28,359</u>	<u>538</u>
Debt due within one year	(7,000)	(16,327)	(23,327)
Debt due after one year	(61,727)	(26,673)	(88,400)
Finance leases	(378)	237	(141)
	<u>(96,926)</u>	<u>(14,404)</u>	<u>(111,330)</u>

## 25 Acquisitions of subsidiaries

### Year ended 31 December 2008

On 28 August 2008 the Group acquired Gwryhd Quarries, a quarrying business specialising in natural stone paving and walling products.

	Recognised values £'000	Fair value adjustments £'000	Carrying amount £'000
Property, plant and equipment (Note 10)	2,863	1,709	4,572
Inventories	149	-	149
Trade and other receivables	282	-	282
Trade and other payables	(220)	-	(220)
Net identifiable assets and liabilities	<u>3,074</u>	<u>1,709</u>	<u>4,783</u>
Goodwill on acquisition			-
Satisfied by:			
Cash consideration			3,500
Deferred consideration			750
Professional fees paid			370
Professional fees accrued			163
			<u>4,783</u>

# Notes to the Consolidated Financial Statements (continued)

## 25 Acquisitions of subsidiaries (continued)

### Year ended 31 December 2008 (continued)

Fair value adjustments reflect the recognition of tangible assets ("mineral reserves"), the recognition of liabilities on an accruals basis, deferred taxation liabilities in respect of tangible assets and the application of the Group's accounting policies. The result of this business has been included in the Consolidated Group Financial Statements using the acquisition method of accounting, from the date of purchase. The post acquisition results are not considered to be material and no separate disclosure has been provided in these Consolidated Financial Statements. In addition, the revenue and profit that would have been generated had this acquisition been at the beginning of the period have not been disclosed. These are not considered material.

### Analysis of net cash outflow:

	£'000
Acquisitions in the year (see above)	3,870
Adjustments to the carrying amounts in relation to acquisitions made in the prior year (including payment of professional fees previously accrued)	31
Investment in Associates (Note 12)	2,176
Net cash outflow	<u>6,077</u>

### Year ended 31 December 2007

On 12 January 2007 the Group acquired the entire issued share capital of Clearwell Quarries Limited, a limestone quarry in the south west of England.

On 5 February 2007 the Group acquired the entire issued share capital of Ollerton Limited, a specialist manufacturer of street furniture and outdoor structures.

On 25 June 2007 the Group acquired quarries and a natural stone walling business in the north of England.

The following disclosures are given in aggregate for all acquisitions in the year.

The following disclosures are given in aggregate for all acquisitions in the year:	Recognised values £'000	Fair value adjustments £'000	Carrying amount £'000
Property, plant and equipment (Note 10)	4,494	1,232	5,726
Intangible assets (Note 11)	-	300	300
Inventories	828	21	849
Trade and other receivables	1,174	-	1,174
Cash and cash equivalents (net of bank overdrafts)	(240)	-	(240)
Trade and other payables	(1,360)	(353)	(1,713)
Deferred taxation (Note 21)	-	(305)	(305)
Net identified assets and liabilities	<u>4,896</u>	<u>895</u>	<u>5,791</u>
Goodwill on acquisition			<u>6,005</u>
Satisfied by:			
Cash consideration			11,104
Professional fees paid			444
Professional fees accrued			248
			<u>11,796</u>



## 25 Acquisitions of subsidiaries (continued)

### Year ended 31 December 2007 (continued)

Fair value adjustments reflect the recognition of intangible assets ("Trademarks" and "Know-how"), the recognition of liabilities on an accruals basis, deferred taxation liabilities in respect of intangible assets and the application of the Group's accounting policies. The results of these businesses have been included in the Consolidated Group Financial Statements using the acquisition method of accounting, from the date of purchase. The post acquisition results are not considered to be material and no separate disclosure has been provided in these Consolidated Financial Statements. In addition, the revenue and profit that would have been generated had these acquisitions been at the beginning of the period have not been disclosed. These are not considered material.

Goodwill arising on the above acquisitions represents integration synergies which include both the ability to sell new product lines through the existing Marshalls network and the opportunity to market our existing products through additional distribution channels.

Goodwill arising on the acquisition of Clearwell Quarries has been reclassified as mineral reserves and transferred to Property, Plant and Equipment as disclosed in Note 11.

#### Analysis of movements in goodwill:

	£'000
Acquisitions in the year (see above)	6,005
Negative goodwill arising on acquisition in the year (Note 3)	700
Adjustments to carrying amounts in relation to acquisitions made in the prior year	(350)
	<hr/>
Additions to goodwill (Note 11)	6,355
	<hr/>

The adjustments to the carrying amounts in relation to acquisitions made in the prior year relate to a re-assessment of contingent consideration and additional professional fees.

#### Analysis of net cash outflow:

	£'000
Acquisitions in the year (see above)	11,548
Adjustments to carrying amounts in relation to acquisitions made in the prior year (including payment of professional fees previously accrued)	1,056
	<hr/>
Net cash outflow (Note 23)	12,604
	<hr/>

# Notes to the Consolidated Financial Statements (continued)

## 26 Operating leases

	2008 £'000	2007 £'000
At 31 December 2008 the Group had commitments under non-cancellable operating leases in respect of property, plant and machinery as follows:		
Expiring:		
within one year	552	1,978
between two and five years	25,502	12,092
More than five years	19,417	21,386
	<u>45,471</u>	<u>35,456</u>

Certain leased properties have been sublet by the Group. In each case the sublease expires in 2009. Sublease payments of £19,800 (2007: £47,500) are expected to be received during the following financial year. An amount of £47,500 (2007: £47,500) was recognised as income in the Consolidated Income Statement within net operating costs in respect of subleases.

## 27 Contingencies

Royal Bank of Scotland plc has issued on behalf of Marshalls plc, irrevocable letters of credit totalling £2,400,000 (2007: £2,225,000) in respect of the Group's employers liability insurance cover with Mitsui Sumitomo Insurance (London Management) Limited. These sums relate to the Group's cap on self insurance in relation to the periods ending between 31 October 2005 and 31 October 2009 inclusive.

## 28 Related parties

### Identity of related parties

The Group has a related party relationship with its Directors and Executive Officers.

### Transactions with key management personnel

Directors of the Company and senior executives (together defined as Persons Discharging Managerial Responsibility) and their immediate relatives, control 0.53 per cent (2007: 0.40 per cent) of the voting shares of the Company.

In addition to their salaries, the Group also provides non-cash benefits to Directors and senior executives, and contributes to a defined contribution scheme on their behalf. Further details in relation to Directors are disclosed in the Directors' Remuneration Report on pages 44 to 54. Senior executives have received Matching Share awards under the LTIP comprising in aggregate 59,837 shares (2007: 73,115 shares).

## 29 Post Balance Sheet Events

Since the year end the Group has announced the closure of its concrete manufacturing operations at Llay. The one off costs of closing these operations, which will be accounted for in 2009, are expected to be approximately £5 million.

### **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 61 to 69.

In relation to the Group's intangible fixed assets (Note 11) impairment tests have been undertaken using commercial judgement and a number of assumptions and estimates to support their carrying amounts. Determining whether goodwill is impaired requires an estimation of the value in use of the CGUs to which goodwill has been allocated. The value in use calculation involves an estimation of the future cash flows of CGUs and also the selection of appropriate discount rates in order to calculate present values.

Note 19 contains information about the assumptions and their risk factors relating to interest rate and foreign currency exposures.

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.

Note 21 contains details of the Group's deferred taxation. Liabilities recognised are determined by reference to the likelihood of settlement and the likelihood that assets are received is based on assumptions of future actions.

# Company Balance Sheet

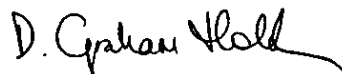
at 31 December 2008

	Notes	2008 £'000	2007 £'000
<b>Fixed assets</b>			
Investments	35	<u>338,340</u>	<u>288,531</u>
<b>Current assets</b>			
Debtors	36	<u>11,003</u>	<u>79,235</u>
Cash at bank and in hand		<u>338</u>	<u>338</u>
<b>Net current assets</b>		<u>11,341</u>	<u>79,573</u>
<b>Net assets</b>		<u>349,681</u>	<u>368,104</u>
<b>Capital and reserves</b>			
Called up share capital	38	<u>35,777</u>	<u>35,777</u>
Share premium account	39	<u>2,734</u>	<u>2,734</u>
Own shares	39	<u>(9,472)</u>	<u>(8,866)</u>
Capital redemption reserve	39	<u>75,394</u>	<u>75,394</u>
Other reserve	39	<u>-</u>	<u>191</u>
Profit and loss account	39	<u>245,248</u>	<u>262,874</u>
<b>Equity shareholders' funds</b>		<u>349,681</u>	<u>368,104</u>

Approved at a Directors' meeting on 6 March 2009.

On behalf of the Board:

D.G. Holden  
Chief Executive



I.D. Burrell  
Finance Director



The notes on pages 101 to 106 form part of these Company Financial Statements.

# Company Reconciliation of Movements in Shareholders' Funds

for the year ended 31 December 2008

	2008 £'000	2007 £'000
Profit for the financial year	2,551	104,618
Equity dividends	(19,374)	(19,098)
(Deficit)/retained profit for the financial year	(16,823)	85,520
Share premium adjustment	-	2
Purchase of own shares	(606)	(8,413)
Share based expenses	(994)	744
<b>Net (reduction in)/additions to shareholders' funds</b>	<b>(18,423)</b>	<b>77,853</b>
<b>Shareholders' funds at beginning of year</b>	<b>368,104</b>	<b>290,251</b>
<b>Shareholders' funds at end of year</b>	<b>349,681</b>	<b>368,104</b>

The notes on pages 101 to 106 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 IFRS7 - "Financial Instruments: Disclosures".

#### (a) Basis of preparation

The Company Financial Statements are prepared under the historical cost convention and in accordance with applicable accounting standards. There is no material difference between historical cost profits and those reported in the profit and loss account.

Under section 230(4) of the Companies Act 1985 the Company is exempt from the requirement to present its own profit and loss account.

Under FRS 1 the Company is exempt from the requirement to prepare a cash flow statement on the grounds that the consolidated cash flows for all Group companies are included within the Consolidated Financial Statements.

As these Parent Company Financial Statements are presented together with the Consolidated Financial Statements, the Company has taken advantage of the exemption contained in FRS 8 and has therefore not disclosed transactions or balances with entities which form part of the Group (or investees of the Group qualifying as related parties). The Consolidated Financial Statements of Marshalls plc within which this Company is included are set out on page 58 to 99.

#### (b) Investments

Fixed asset investments are stated at cost less provision for impairment where appropriate. The Directors consider annually whether a provision against the value of investments on an individual basis is required. Such provisions are charged in the profit and loss account in the year.

## Notes to the Company Financial Statements (continued)

### (c) Pension costs

#### **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 Company is unable to identify its share of the underlying assets and liabilities of the scheme on a consistent and reasonable basis and therefore, as required by FRS 17 - *"Retirement benefits"*, the Company has accounted for the Scheme as if it were a defined contribution scheme.

#### **Defined contribution scheme**

Contributions to the Group's defined contribution Pension Scheme are determined as a percentage of employees' earnings and are charged to the profit and loss account as incurred.

### (d) Share-based payment transactions

The Company enters into equity-settled share-based payment transactions with its employees and its subsidiaries' employees. In particular, annual awards are made to Directors under a long term incentive plan.

The long term incentive plan allows Company employees to acquire shares of Marshalls plc. The fair value of options granted to Company employees 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. The fair value of the options granted is measured using an 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 share options that vest. Where the Company grants options over its own shares to the employees of its subsidiaries it recognises an increase in the cost of investment in its subsidiaries equivalent to the equity-settled share-based payment charge recognised in its subsidiary's financial statements with the corresponding credit being recognised directly in equity.

### (e) Own shares held by 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.

### (f) Cash and liquid resources

Cash comprises cash in hand and deposits repayable on demand, less overdrafts repayable on demand.

Liquid resources are current asset investments which are disposable without curtailing or disrupting the business and are either readily convertible into known amounts of cash, at or close to their carrying values, or traded in an active market. Liquid resources comprise term deposits of less than one year.

### (g) Leased assets

Elements of plant and machinery are subject to finance leases giving rights approximating to ownership. Such assets are treated as though they had been purchased outright and are included in tangible fixed assets at a value equal to the present value of the minimum lease payments to be made during the term of the lease. The total amount of the future obligations outstanding is included in creditors.

The amount included in tangible fixed assets is written off over the shorter of the useful life of the asset or the term of the lease.

The rental cost of all operating leases is charged to the profit and loss account on a straight line basis over the lives of the leases.

### (h) Current tax

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.

### 31 Accounting policies (continued)

#### (i) Deferred taxation

Full provision is made for deferred taxation resulting from timing differences, other than those specifically excluded by FRS19 - "Deferred Taxation", between profits computed for taxation purposes and profits stated in the Financial Statements to the extent that there is an obligation to pay more tax in the future as a result of those timing differences. Deferred taxation assets are recognised to the extent that they are expected to be recoverable. Deferred taxation assets and liabilities are not discounted.

#### (j) Financial guarantees

Where the Company enters into financial guarantee contracts to guarantee the indebtedness of other companies within the Group, the Company considers these to be insurance arrangements, and accounts for them as such. In this respect, the Company treats the guarantee contract as a contingent liability until such time as it becomes probable that the Company will be required to make a payment under the guarantee.

#### (k) 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).

### 32 Operating costs

The audit fee for the Company was £20,000 (2007: £20,000). This is in respect of the audit of the Financial Statements. Fees paid to the Company's auditors 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.

### 33 Employees

The average number of persons (including Directors) employed by the Company during the year was 22 (2007: 22). Personnel costs (including Directors) charged in the Company Financial Statements amounted to £2,703,000 (2007: £3,616,000).

Details of Directors' remuneration, share options, long term incentive plans and Directors' pension entitlements are disclosed in the Directors' Remuneration Report on pages 44 to 54.

### 34 Ordinary dividends: equity shares

	2008		2007	
	per share	£'000	per share	£'000
2007 Final: paid 4 July 2008	9.30p	13,009	8.85p	12,653
2008 Interim: paid 3 December 2008	4.55p	6,365	4.55p	6,445
	<u>13.85p</u>	<u>19,374</u>	<u>13.40p</u>	<u>19,098</u>

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.

	2008	2007
	£'000	£'000
1.45 pence (2007: 9.30 pence) per ordinary share	<u>2,025</u>	<u>13,009</u>



## Notes to the Company Financial Statements (continued)

### 35 Investments

	£'000
At 1 January 2008	288,531
Additions	50,000
Decrease in the year	(191)
<b>At 31 December 2008</b>	<b>338,340</b>

Investments comprise shares in the subsidiary undertaking, Marshalls Group plc.

The increase in the year of £50,000,000 represents the allotment of 200,000,000 new 25 pence ordinary shares by Marshalls Group plc on 22 December 2008.

The decrease in the year of £191,000 represents an adjustment to the number of shares expected to vest in respect of LTIP awards granted to employees of Marshalls Group Limited.

The principal wholly owned subsidiary undertakings of Marshalls plc at 31 December 2008 are set out below. All the companies operate within the United Kingdom and are registered in England and Wales.

Subsidiaries	Principal activities
Marshalls Group plc	Intermediate holding company.
Marshalls Mono Limited *	Landscape products manufacturer and supplier and quarry owner supplying a wide variety of paving, street furniture and natural stone products.

\* held by subsidiary undertaking

### 36 Debtors

	2008 £'000	2007 £'000
Amounts owed by subsidiary undertakings	10,166	77,940
Corporation tax	835	1,293
Other debtors	2	2
	<b>11,003</b>	<b>79,235</b>

No debtors were due after more than one year.

### 37 Deferred taxation

There is no deferred taxation in the Company.

### 38 Share capital

As at 31 December 2008, the authorised, issued and fully paid up share capital was as follows:

	Authorised			
	2008	2008	2007	2007
	Number	Nominal Value £'000	Number	Nominal Value £'000
Ordinary Shares	<u>300,000,000</u>	<u>75,000</u>	<u>300,000,000</u>	<u>75,000</u>
	Issued and paid up			
	2008	2008	2007	2007
	Number	Nominal Value £'000	Number	Nominal Value £'000
Ordinary Shares	<u>143,106,254</u>	<u>35,777</u>	<u>143,106,254</u>	<u>35,777</u>

Disclosures regarding share based payments are given in Note 20 on pages 88 to 89.

### 39 Share capital and reserves

	Ordinary share capital £'000	Share premium account £'000	Own shares £'000	Capital redemption reserve £'000	Equity reserve £'000	Profit and loss account £'000
At 1 January 2008	35,777	2,734	(8,866)	75,394	191	262,874
Purchase of own shares	-	-	(606)	-	-	-
Share based expenses	-	-	-	-	(191)	(803)
Deficit for the financial year (net of dividends)	-	-	-	-	-	(16,823)
<b>At 31 December 2008</b>	<u><b>35,777</b></u>	<u><b>2,734</b></u>	<u><b>(9,472)</b></u>	<u><b>75,394</b></u>	<u><b>-</b></u>	<u><b>245,248</b></u>

### 40 Capital and leasing commitments

The Company had no capital or leasing commitments at 31 December 2008 or 31 December 2007.

### 41 Bank facilities

The Group's banking arrangements are in respect of Marshalls plc, Marshalls Group plc and Marshalls Mono Limited with each company being nominated borrowers. The operational banking activities of the Group are undertaken by Marshalls Group plc and the Group's bank debt is largely included in Marshall's Group plc's balance sheet.

### 42 Contingent liabilities

Royal Bank of Scotland plc has issued, on behalf of Marshalls plc, irrevocable letters of credit totalling £2,400,000 (2007: £2,225,000) in respect of the Group's employers liability insurance cover with Mitsui Sumitomo Insurance (London Management) Limited. These sums relate to the Group's cap on self insurance in relation to the periods ending between 31 October 2005 and 31 October 2009 inclusive.

## Notes to the Company Financial Statements (continued)

### 43 Pension scheme

The Company is the sponsoring employer of the Marshalls plc Pension Scheme (the "Scheme") which has both a defined benefit and a defined contribution section. The assets of the Scheme are held in separately managed funds which are independent of the Group's finances. As set out in Note 20 the Group introduced a new defined contribution section to the Scheme to replace the existing defined benefit section which closed to future service accrual on 1 July 2006.

Full details of the Scheme are provided in Note 20. The Company is unable to identify its share of the Scheme assets and liabilities on a consistent and reasonable basis. Accordingly, as permitted by FRS 17 - "*Retirement benefits*", the Scheme has been accounted for in these Company Financial Statements as if the Scheme was a defined contribution scheme.

The latest funding valuation of the Scheme was carried out as at 6 April 2008 and was updated for FRS 17 purposes to 31 December 2008 by a qualified independent Actuary. Certain employees are members of the Company's defined contribution scheme which invests funds in which the contributions for each individual member are separately identifiable and the benefits calculated accordingly.

The Group deficit on an FRS17 basis at 31 December 2008 was £nil (2007: £17,795,000).

# Shareholder Information

## Shareholder analysis at 31 December 2008

<i>Size of Shareholding</i>	<i>Number of Shareholders</i>	<i>%</i>	<i>Number of Ordinary Shares</i>	<i>%</i>
1 to 500	2,137	37.27	334,897	0.25
501 to 1,000	803	14.01	620,165	0.43
1,001 to 2,500	1,188	20.72	2,017,291	1.41
2,501 to 5,000	725	12.65	2,555,110	1.79
5,001 to 10,000	374	6.52	2,668,322	1.86
10,001 to 25,000	182	3.17	2,892,006	2.02
25,001 to 100,000	153	2.67	7,771,585	5.43
100,001 to 250,000	70	1.22	10,996,540	7.68
250,001 to 500,000	41	0.72	15,219,148	10.63
500,001 and above	60	1.05	98,031,190	68.50
	<u>5,733</u>	<u>100.00</u>	<u>143,106,254</u>	<u>100.00</u>

## Financial calendar

Preliminary Announcement of results for the year ended

31 December 2008	Announced	6 March 2009
Annual General Meeting		14 May 2009
Final dividend for the year ended 31 December 2008	Payable	3 July 2009
Interim results for the year ending 31 December 2009	Announcement	28 August 2009
Interim dividend for the year ending 31 December 2009	Payable	4 December 2009
Results for the year ending 31 December 2009	Announcement	Early March 2010

## Registrars and general

All administrative enquiries relating to shareholdings should, in the first instance, be directed to Computershare Investor Services plc, PO Box 82, The Pavilions, Bridgwater Road, Bristol BS99 7NH, telephone: 0870 702 0000, fax: 0870 703 6116, and clearly state the registered shareholder's name and address.

## Amalgamation of shareholdings

If you are receiving more than one copy of our Annual Report, this may be because you have several accounts on our Share Register. If you would like these accounts amalgamated, this can be done without charge if you write to the Registrar enclosing your Share Certificates.

## Dividend mandate

Any shareholder wishing dividends to be paid directly into a bank or building society should contact the Registrar for a dividend mandate form. Dividends paid in this way will be paid through the Bankers Automated Clearing System (BACS).

## Website

The Group has an internet website which gives information on the Group, its products and provides details of significant Group announcements. The address is [www.marshalls.co.uk](http://www.marshalls.co.uk).

## Financial History – Consolidated Group

	Year to December 2004 £'000	Year to December 2005 £'000	Year to December 2006 £'000	Year to December 2007 £'000	Year to December 2008 £'000
<b>Consolidated Income Statement</b>					
Revenue	328,343	359,310	378,100	402,926	<b>378,063</b>
Net operating costs	(281,370)	(314,885)	(330,339)	(354,116)	<b>(347,447)</b>
Operating profit (for 2008 before works closure costs and asset impairments)	46,973	44,425	47,761	48,810	<b>30,616</b>
Works closure costs and asset impairments (for 2008)	-	-	-	-	<b>(26,989)</b>
Operating profit	46,973	44,425	47,761	48,810	<b>3,627</b>
Financial income and expenses (net)	(6,718)	(6,407)	(6,058)	(6,707)	<b>(8,154)</b>
Profit/(loss) before tax	40,255	38,018	41,703	42,103	<b>(4,527)</b>
Income tax expense	(12,230)	(11,661)	(12,623)	(11,852)	<b>(1,694)</b>
Profit/(loss) after tax but before gain on sale and post tax profit of discontinued operations	28,025	26,357	29,080	30,251	<b>(6,221)</b>
Gain on sale and post tax profit of discontinued operations	3,278	31,517	-	-	<b>-</b>
Profit/(loss) for the financial period	31,303	57,874	29,080	30,251	<b>(6,221)</b>
<b>Financial Information</b>					
EBITA	47,028	44,684	48,118	49,471	<b>4,468</b>
EBITDA	64,033	63,400	67,648	70,530	<b>25,906</b>
EBITA before works closure costs and asset impairments	47,028	44,684	48,118	49,471	<b>31,457*</b>
EBITDA before works closure costs and asset impairments	64,033	63,400	67,648	70,530	<b>52,895*</b>
Earnings per share (pence)					
Basic: (continuing operations)	18.07	18.55	20.34	21.28	<b>(4.46)</b>
Basic: (total operations)	20.18	40.73	20.34	21.28	<b>(4.46)</b>
Basic: (before works closure costs and asset impairments)	20.18	18.55	20.34	21.28	<b>11.61*</b>
Dividends per share (pence) - IFRS	11.25	12.10	12.70	13.40	<b>13.85</b>
Dividend cover (times) - IFRS	1.61	1.53	1.60	1.59	<b>0.84*</b>
Dividends per share (pence) - Traditional	11.90	12.50	13.15	13.85	<b>6.00</b>
Dividend cover (times) - Traditional	1.52	1.48	1.55	1.54	<b>1.94*</b>
Year end share price (pence)	297.0	312.0	355.0	241.0	<b>90.0</b>

\* before works closure costs and asset impairments

	2004 £'000	2005 £'000	2006 £'000	2007 £'000	2008 £'000
<b>Consolidated Balance Sheet</b>					
Non-current assets	232,132	264,181	270,626	276,515	<b>277,615</b>
Current assets	131,913	109,567	102,568	134,004	<b>122,577</b>
Total assets	364,045	373,748	373,194	410,519	<b>400,192</b>
Current liabilities	(81,114)	(64,918)	(70,111)	(104,020)	<b>(89,064)</b>
Non-current liabilities	(151,438)	(142,490)	(118,541)	(105,858)	<b>(117,891)</b>
Net assets	131,493	166,340	184,542	200,641	<b>193,237</b>
Net borrowings	(108,239)	(46,688)	(54,606)	(96,926)	<b>(111,330)</b>
Gearing ratio	(82.3%)	(28.1%)	(29.6%)	(48.3%)	<b>(57.6%)</b>