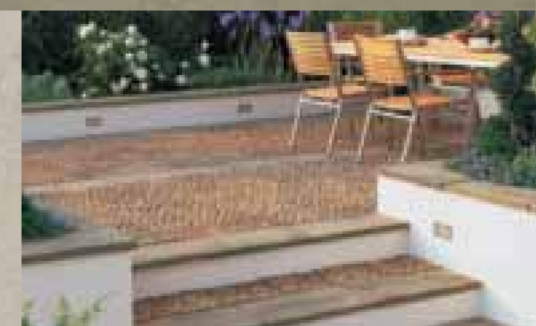

ANNUAL REPORT 2005

Marshalls

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ANNUAL REPORT 2005

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London City Map Point

Financial Highlights

- Revenue, including acquisitions, up 9.4 per cent
- Like for like revenue up 1.3 per cent
- Operating profit up 1.0 per cent, at £47.4 million, before works closure costs
- Gain on sale of Clay Products business of £31.5 million
- Net debt of £46.7 million with gearing at 28.1 per cent
- Basic EPS (continuing operations) up 2.7 per cent
- Final dividend up 5.0 per cent at 8.4 pence per share

Concept Paving Ammonite, Amber Colour

Corporate Objectives

Customers are at the centre of our business. We supply our customers with exclusive ranges of the highest quality landscape and walling products and provide outstanding levels of customer service in our chosen markets. We continually innovate in the design of our products and in our methods of manufacture. Our achievement of these objectives will ensure that we maintain and develop our market leading position.

Marshalls undertakes this challenging task with the objective of delivering superior rates of return to our shareholders and providing opportunities and reward for our employees.

Profile

Marshalls 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, Public Sector and Commercial use.

The home improvement and home building markets are the largest users of the Groups' 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, 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. Products are distributed from a national network of manufacturing and Service Centres either to customers' depots or, at their request, direct to site.

Rio Cascade Wavesets, Storm Colour

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Chairman's Statement

Your Group grew both revenue and earnings per share, in a year when trading conditions were as difficult as we anticipated in our report to you last year.

The earnings per share growth of 2.7 per cent, whilst being below our longer term strategic target, was a creditable result in the circumstances.

The Board recommends a final dividend of 8.40 pence (2004: 8.00 pence) per ordinary share, making a total of 12.50 pence (2004: 11.90 pence) for the year, an increase of 5.0 per cent. This reflects our policy of increasing dividends in line with medium term earnings growth. The International Financial Reporting Standard disclosure on the face of the Consolidated Income Statement is 12.10 pence (2004: 11.25 pence). The final dividend will be paid on 7 July 2006 to shareholders on the Register on 9 June 2006. The ex-dividend date will be 7 June 2006.

Concept Paving, Shadow Colour

Notwithstanding the difficult trading climate, we continued to invest for the benefit of our longer term future. Costs were reduced throughout the Group, including two major site closures. The Capital Expenditure programme extended the reach of automated manufacturing and positions the Group as a true low cost manufacturer in the industry. We also continued revenue investments in the start up of our new consumer facing Transformation Centres.

Our operating result, the associated cashflow (both commented on in detail in our Operating and Financial Review) and our continued investment programme all underline the high quality and resilience of your Group.

During the year the Board, together with the Executive team, completed a strategic review of the business, confirming our view that we have positive growth potential in our core business and closely associated fields.

Woodstone Sleepers

One direct output of this exercise was the establishment of Strategic Key Performance Indicators ("KPIs"), which are set out in the Operating and Financial Review. This will enable your Board to monitor progress against key strategic objectives.

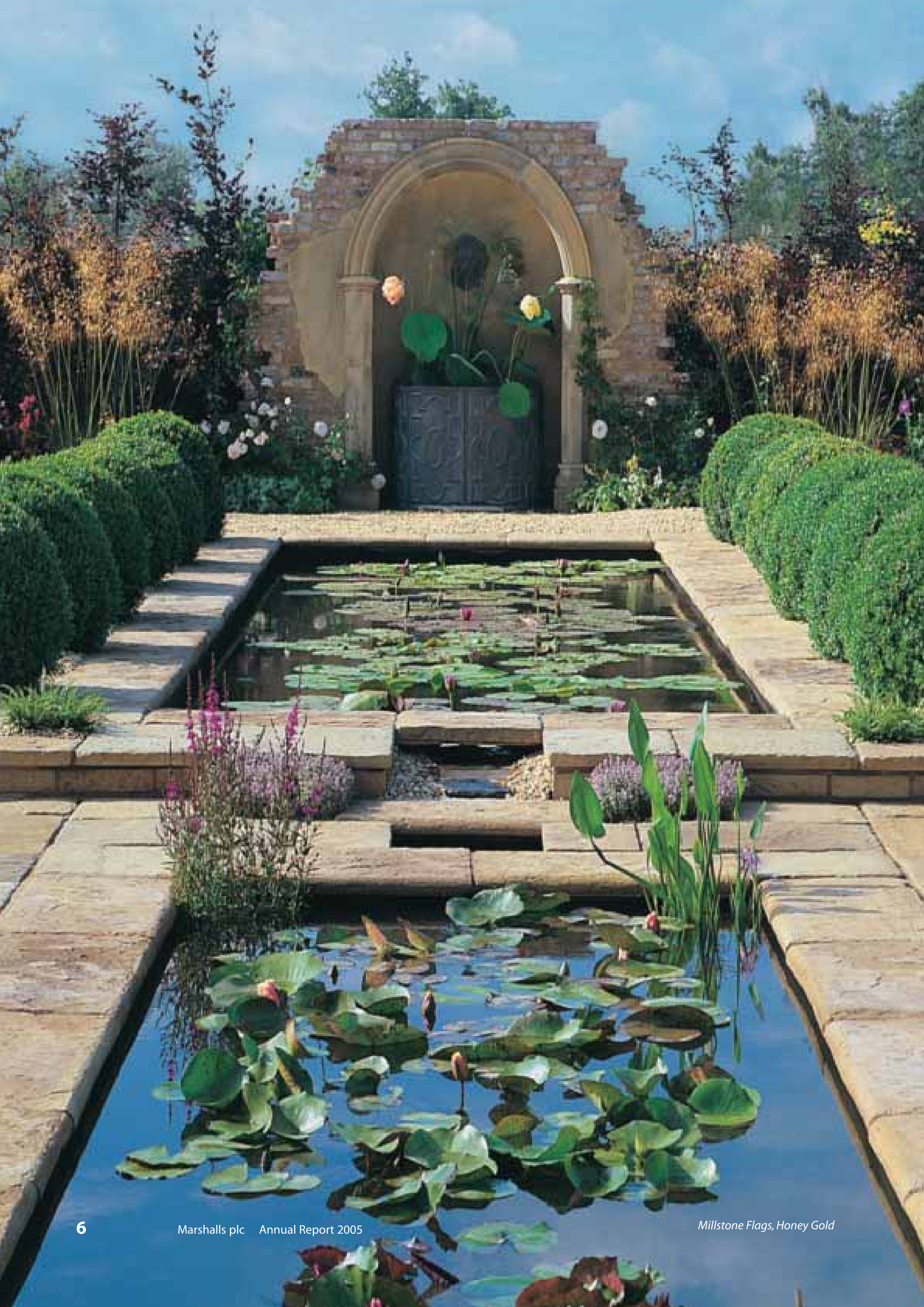
In pursuit of our growth objective we made a small acquisition; Paver Systems in Scotland and we also purchased the property assets of Stoke Hall Quarry in Derbyshire. Our objective is to increase the flow of suitable acquisition candidates.

After accounting for all of these investment activities we ended the year with conservative balance sheet gearing, which is appropriate to our forward investment plans and the somewhat uncertain outlook in 2006, when we expect trading conditions to be at least as difficult as 2005.

Finally, it remains only for me to thank all of our stakeholders; customers, suppliers, but especially our employees for their support and excellent work throughout a challenging year.

Mike Davies
Chairman
10 March 2006

Driveline Elite Circle, Firebrick



Millstone Flags, Honey Gold

Operating and Financial Review

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.

Long Term Strategy and Business Objectives

Corporate Objectives

Marshalls corporate objectives are:-

1. Sustainable sales growth of 7 per cent or more over a three year period on a compound annual growth rate ("CAGR") basis;

2. Earnings per share growth of at least 3 per cent above the retail price index over a three year period, on a CAGR basis, with a target of 6 per cent over the retail price index;

3. Dividend policy where dividends will move in line with medium term earnings growth; and

4. Return on capital employed of 20 per cent or more per annum.

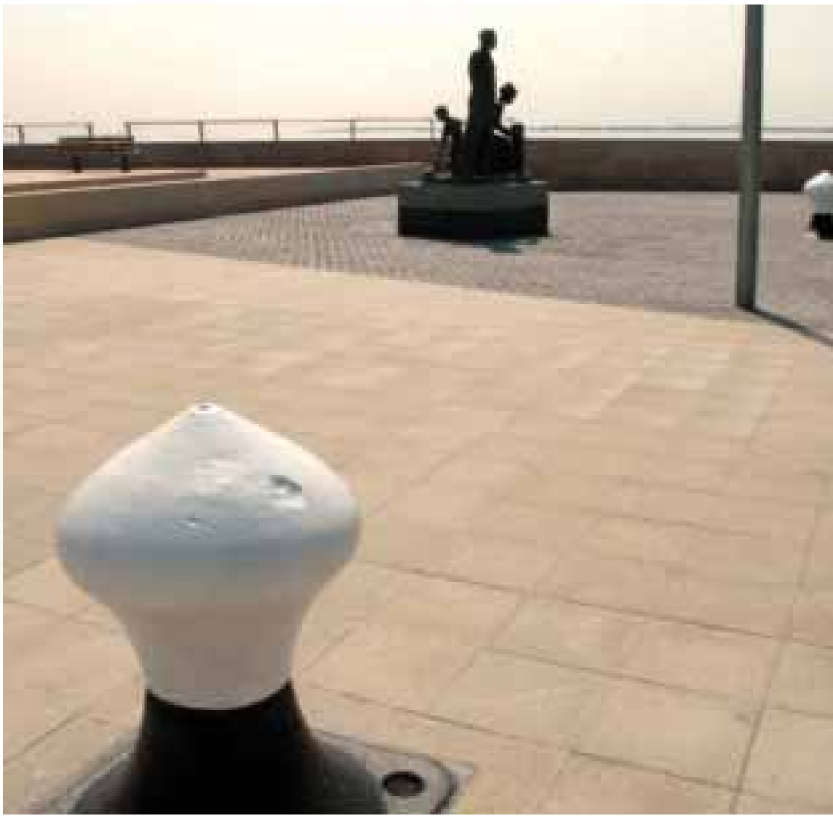
Strategy

The strategy to achieve these objectives is:-

1. To deliver sustainable shareholder value by continuing to grow the core business.

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 develop the direct to consumer service offer to enhance and support the core hard landscape products business.



Saxon Paving and Natural Stone Granite Setts, Hull Waterfront

This will allow consumers to view a full range of products in an aspirational and sympathetic setting, request a design and identify a quality installer for their project. Having already established a unique regional distribution and manufacturing network and having built an installer register, this will create the "pull through demand" by investing in sales and marketing directly to the consumer.

3. To develop further the integrated product offer for the Public Sector and Commercial hard landscaping market.

The Public Sector and Commercial hard landscaping market requires a range of co-ordinated products that deliver technical performance and the required appearance.

4. To invest in selective acquisitions in existing and related product categories to capitalise on the Marshalls brand and unique access to nationwide distribution channels.

Granite Bespoke Masonry, City Square, Leeds

Strategic Key Performance Indicators ("KPIs")

Performance is monitored using a full suite of KPIs. The Directors have identified the six measures below as the strategic KPIs. The first two are measured on a three year CAGR basis. 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.

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 and safety reduction in reportable incidents:	10 per cent per annum

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

The results achieved on each of these measures are set out in the appropriate sections below.

Review of the Operations

Markets

Half of the revenue of the business is from the consumer driven Domestic market and half from the Public Sector and Commercial market. This provides a balance to demand as the performance of the two markets can be counter cyclical.

Overall market conditions were more challenging in 2005 than they have been for many years. The Construction Products Association ("CPA") estimate that construction output declined by 1.3 per cent, the first year on year decline since 1994, with Private Housing Repair, Maintenance & Improvement expenditure down 5.0 per cent.

Marshalls' revenue at £359.3 million grew by 9.4 per cent, including acquisitions, compared with the prior year and on a three year moving average basis grew by 6.9 per cent per annum. Like for like revenue was 1.3 per cent ahead.

Domestic

Marshalls is a market leader in the domestic driveway and patio markets. Products are sold under the Marshalls and Stonemarket brands. Significant amounts of money are invested annually in the continual development of these brands and supporting consumer research. This takes many forms including TV sponsorship (UK Style satellite channel), advertising in the national press and home interest magazines, exhibitions and competitions. Marshalls continually innovates in products and service and delivers quality in everything it does. In 2005 Marshalls was rated fourth in the Management Today survey of Britain's Most Admired Companies Awards for its "Quality of Marketing".

The Marshalls Register of approved installers, which we recommend to the consumer, comprises over 1,700 installation teams around the Country whose work is constantly vetted. These installers are able to issue a ten year materials and labour guarantee of their work.

The Domestic consumer business is market focussed and future development benefits from comprehensive market research. Marshalls aims to understand consumer preference and concerns and work with the installers and distributors of our products to deliver what the consumer wants. This research clearly demonstrates a demand for higher value products and a consumer willingness to pay for them. The benefits of providing an improved product mix for the consumer, installer, distributor and Marshalls is significant and hence much of our marketing investment is focussed on unlocking this opportunity.

Rio Cascade Paving, Shell Colour

In March 2005 Marshalls launched its first Drive & Garden Transformation Centre in Falkirk, Scotland. This displays a wide range of garden and driveway products in an aspirational setting enabling the consumer to choose exactly the right product for them. The Transformation Centre staff are able to arrange for a design to be produced which can then be installed by a Marshalls Register installer who will then source the products through his local builders merchant.

The initial results from this pilot have been encouraging and there will be two more opening in 2006 at Bramhall, Cheshire and Roxton, Bedfordshire.

The traditional National Trust products launched in 2005 were well received and the range has been extended for 2006. The contemporary "lunar" paving, designed by Diarmuid Gavin, also excited a lot of interest and new contemporary designs are available in 2006.

In December 2004 we acquired the Compton Group, the UK's leading manufacturer of concrete garages, workshops and sectional commercial buildings. The business also produces timber and aluminium greenhouses under the "Alton" and "Robinsons" brands. Compton performed in line with expectations during its first full year as a Marshalls specialist business. Significant operational improvements are being made and during 2006 further investment will be made in information technology.

In September 2005 we completed the acquisition of Paver Systems (Carluke) Limited, based in Lanarkshire, Scotland. This business primarily supplies driveway products. It will operate in conjunction with Stonemarket.

After a prolonged period of growth, 2005 was a more difficult year for the Domestic market, reflecting wider economic conditions. Marshalls' performance was resilient with like for like revenue 1.3 per cent down on the previous year.

Public Sector and Commercial

Marshalls 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.

Market research also drives the approach to this sector of the market. The aim is to deliver products that are attractive to look at and are also practical in use and to install. Marshalls have a portfolio of products that can be combined to create an attractive landscaped area.

An important part of the Group's strategy is the development of an integrated product offer for the Public Sector and Commercial market. During the year a number of major projects have been progressed which demonstrate the benefits of a product offer combining natural stone and concrete paving, linear drainage, bollards and attractively designed lighting. All of these are now available from within the Marshalls Group. This will continue to be an important area for organic growth and will be a focus for future acquisitions.

The three acquisitions made in 2004 that supply this sector of the market, The Great British Bollard Company, Woodhouse (both supplying street furniture products) and Premier Mortars have performed in line with expectations and have broadened the product offer significantly.

In November 2005 the quarry and property assets of Stoke Hall Quarry, in Derbyshire, were acquired. These additional stone reserves will form part of Stancliffe Stone, our existing stone walling, cladding and masonry business.

Like for like revenue from the Public Sector and Commercial sectors of the market was 3.7 per cent ahead.

Manufacturing and Distribution

The Marshalls operating strategy is to combine regional manufacturing and distribution sites ("Service Centres") with national manufacturing works. The same capital equipment produces products for both the Domestic market and the Public Sector and Commercial market. This facilitates manufacturing efficiency as the two markets exhibit differential growth rates and follow different seasonal patterns. The national manufacturing sites produce the newly introduced and specialist products that have not reached the commercial volumes that justify regional manufacture. The products that we supply have a low value to weight ratio and hence close proximity to market is important both from a service and a cost perspective. Marshalls geographical spread is unique in the industry and provides a competitive advantage.

Customer service is a high priority area. The KPIs cover product availability, accuracy and timeliness of deliveries as well as administrative accuracy. Standards improved again in 2005 and are industry leading. Our combined customer service measure reached 97.2 per cent (2004: 95.1 per cent).

After high levels of capital expenditure in 2002 – 2004, net capital investment in 2005 totalled £20.7 million. This compares to a depreciation charge of £18.7 million. The main focus of this was on production automation utilising industrial robots. There were 36 robots installed by the end of the year. The payback on these investments is rapid. Investment for 2006 is expected to be similar to depreciation at approximately £20.0 million. This will include further robots and a geographical expansion of our natural stone walling and mortar businesses.

The cost base of the Group continues to be reduced and during 2005 two works were closed, at Hipperholme, near Halifax, and Mansfield. These were the two remaining sites that did not form part of the Service Centre and national manufacturing structure. These two production units were no longer required following the capacity increases resulting from the excellent productivity gains from recent capital investment initiatives combined with flatter markets.

The Group has a number of surplus properties which are in the process of being sold. The timing of sales is usually dependent on suitable planning permissions being obtained. In December 2005 part of a former brick manufacturing site near Wakefield was sold after first obtaining planning permission for housing. The Group's property portfolio is continually reviewed to identify opportunities to maximise its potential.

Organisation

Marshalls organisational structure comprises the regional and national manufacturing sites that have been described above. It incorporates specialist businesses such as those manufacturing Street Furniture products. This structure also enables the operationally independent businesses, such as Stonemarket and Paver Systems, to focus on the development of their own unique brand and position in the market place.

People

Marshalls has an experienced, flexible and well motivated workforce. The Group is committed to developing the potential of the workforce. This is achieved through a wide range of in house and external programmes with particular emphasis towards "on the job" training. Considerable time, effort and investment is being committed to ensure that the workplace is becoming safer. A more detailed report is included within the Corporate and Social Responsibility Statement on page 21. It is pleasing to report a further reduction of 25 per cent in incidents reportable to the Health & Safety Executive this year.

Research and Development

Marshalls has a Manufacturing Innovation and Development team staffed by high calibre engineers and technicians. They are continually striving to improve the flexibility and effectiveness of product manufacture. Marshalls are at the forefront of technical research and development for existing production technologies.

The chemistry of the materials that are used is another area for innovation. During 2005 fibre reinforced concrete was launched. This provides added structural integrity to paving which may be subject to vehicle overrun. Research continues to identify better formulations which improve product performance and reduce product costs.

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 be invested in research and development in the future.

Concept Drystone, Amber Colour

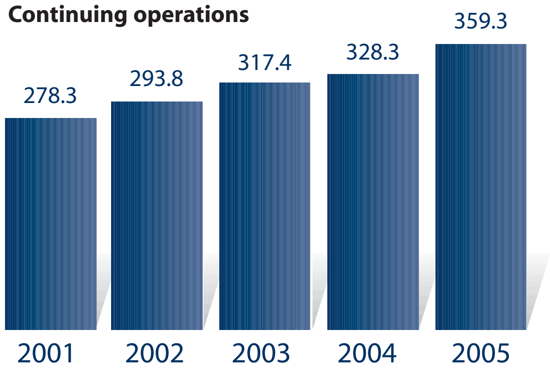
Group Results

The consolidated results for the year ended 31 December 2005 are reported under International Financial Reporting Standards ("IFRSs"). All comparative figures have been restated in accordance with IFRS 1 and full reconciliations that explain the impact of the transition from UK GAAP to IFRS have been included in Note 29 on pages 81 to 84.

On 4 January 2005 Marshalls Clay Products Limited was sold to Hanson PLC for a cash consideration of £65.0 million (including the repayment of all inter-group indebtedness) and a pre-tax gain of £31.5 million was realised. The results of this former business have been disclosed under discontinued operations in the Consolidated Income Statement. In addition the Group has adopted IFRS 5 from 1 January 2004 and, consequently, the comparative Consolidated Balance Sheet discloses the discontinued business as assets and liabilities held for sale.

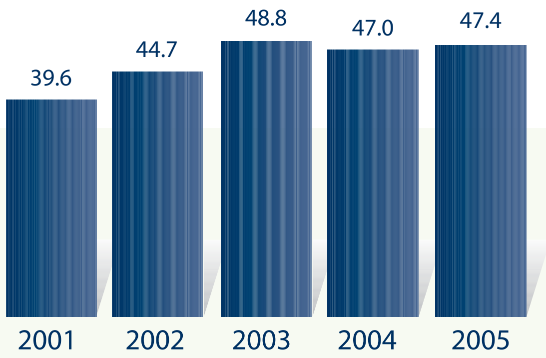
Financial History

Revenue (£m)
Continuing operations



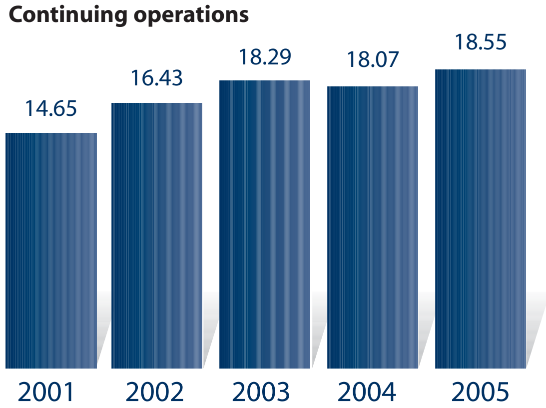
The CAGR for the five year period to the end of 2005 for revenue growth from continuing operations was 6.6 per cent.

Operating profit
before works closure costs (£m)
Continuing operations



The CAGR for operating profit from continuing operations was 4.6 per cent over the same period on the same basis.

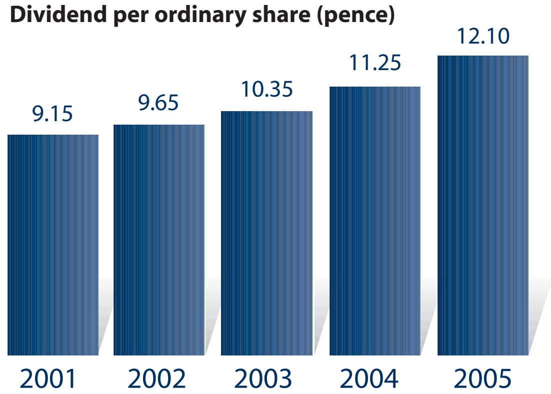
Basic earnings per share (pence)
Continuing operations



The CAGR for the five year period to the end of 2005 for earnings per share growth was 6.1 per cent which is equal to 3.2 per cent above the retail price index.

The following graph shows that dividends (disclosed under IFRS) have, on a CAGR basis, grown by 7.2 per cent over the last five years which is ahead of the growth in earnings per share of 6.1 per cent. Dividends disclosed on an IFRS basis do not include the final 2005 declared dividend of 8.40 pence. This dividend represents a 5.0 per cent increase over the comparative final dividend and is similar to the 5.1 per cent increase in dividend at the interim stage.

Dividend per ordinary share (pence)



This five year analysis does not include the Return of Value of £75 million that was paid back to shareholders during 2004.

As at 31 December 2005 the Company's share price was 312.0 pence per share. When dividends are included this gives a total shareholder return of 53.0 per cent over a five year performance period. A performance graph has been disclosed on page 39 where the Group's TSR is compared with the FTSE 250 Index. This index has grown by 39.3 per cent by comparison over the same period.

Financial Review of 2005

Revenue and operating profit summary

	2005 £'m	2004 £'m	Change %
Revenue - Continuing operations	**359.3**	328.3	9.4
Operating profit			
- Continuing operations			
Before works closure costs	**47.4**	47.0	1.0
Works closure costs	**(3.0)**	-	
Reported operating profit	**44.4**	47.0	-5.4

Including acquisitions, Group revenue for the year increased by 9.4 per cent to £359.3 million. Like for like revenue increased by 1.3 per cent. Operating profit rose by 1.0 per cent to £47.4 million before charging £3.0 million of works closure costs. EBITDA was £66.4 million (2004: £64.0 million), an improvement of 3.7 per cent. Basic earnings per share, from continuing operations, increased by 2.7 per cent to 18.55 pence. Before works closure costs basic earnings per share from continuing operations is 20.03 pence which is an increase of 10.8 per cent.

The sale of the Clay Products business realised a pre tax profit of £31.5 million which has been disclosed under discontinued operations in the Consolidated Income Statement. No tax is expected to be payable on the gain due to the utilisation of capital losses. Earnings per share from total operations in 2005 (including the gain on sale and post tax profit of discontinued operation) was 40.73 pence (2004: 20.18 pence) which is an increase of 101.8 per cent.

The results for the year ended 31 December 2005 represent a resilient trading performance despite challenging market conditions and rising raw material and utility costs. This has been achieved through many initiatives including the close control of costs and the continuing development of the Marshalls brand. During the year we have closed two production facilities in Hipperholme, near Halifax and Mansfield and this has led to a one-off charge of £3.0 million in the year. The closure of the Mansfield site took place in December 2005 and there will be a further charge of approximately £0.5 million in relation to this in the first half of 2006. Production has been transferred to other plants in the Group. Capital investment, productivity initiatives and plant closures have seen headcount reduce over the year.

Classical Pennant

Revenue and operating profit reconcilliation

	Revenue £'m	Movement in Operating profit £'m	Impact %
2004 - Continuing operations	328.3	47.0	14.3
Acquisitions	26.6	1.3	5.0
Clay sale (continuing costs)	-	(1.0)	
	354.9	47.3	13.3
Organic growth	4.4	0.1	
2005 - Continuing operations (before works closure costs)	**359.3**	**47.4**	**13.2**
Works closure costs		(3.0)	
2005 - Continuing operations (after works closure costs)		**44.4**	

The increase in revenue of 9.4 per cent comprises 8.1 per cent from acquisitions and 1.3 per cent from organic growth. In terms of operating profit, acquisitions (net of the sale of the Clay business) contributed 0.7 per cent to the total growth of 1.0 per cent and organic growth contributed 0.3 per cent.

The operating profit margin from continuing operations has fallen from 14.3 per cent in 2004 to 13.2 per cent in 2005. This is largely due to the impact of acquisitions which have lower margins during their integration phase and the residual effect of the sale of the Clay business. The acquisitions and sale caused the Group operating margin to fall to 13.3 per cent.

Last year we identified around £2.0 million of Group costs which were previously absorbed by the Clay business. Following its sale, we have cut out £1.0 million, however £1.0 million remains relating to IT and other Group related services. Savings have now been made elsewhere in the Group to cover these costs.

Overall the operating margin from the continuing business was virtually unchanged. Cost increases of around £9.0 million were recovered through sales price increases which had the effect of reducing the operating margin by 0.3 per cent. Volume under-recoveries due to our operational gearing have been recovered through productivity improvements.

Included in the like for like figures are approximately £1.0 million of additional marketing costs relating to the Group's new "direct to consumer" initiatives. This expenditure will increase to around £1.4 million in 2006. These additional costs were largely covered by asset and property disposal profits which amounted to approximately £1.2 million above the prior year.

The Group acquired four businesses in 2004 and in September 2005 this investment programme continued when Paver Systems (Carluke) Limited was also acquired for £8.7 million. This business is based in Lanarkshire, Scotland, and is a manufacturer of concrete block paving.

The acquisitions made in 2004 have helped to increase the Group's presence in the street furniture area of the hard landscaping market. Our strategy is to continue to increase our market share in this area and we are currently reviewing a number of bolt-on acquisition opportunities. The Group's aim is to create a full street scene offering, with national coverage, including a full range of paving and street furniture products.

Operating Performance

Analysis of revenue growth by market sector

Market Sector	**2005 £'m**	2004 £'m	Change %
Domestic	**179.3**	158.8	12.9
Public Sector and Commercial	**180.0**	169.5	6.2
Total (including acquisitions)	**359.3**	328.3	9.4
Overall percentage			
Domestic	**49.9%**	48.4%	
Public Sector and Commercial	**50.1%**	51.6%	

The Domestic market comprises approximately 50 per cent of Group revenue. Compared with 2004 Domestic revenue fell by 1.3 per cent. This movement comprised an adverse volume variance of around 4 per cent which was not matched by price increases which were only around 3 per cent on average. This volume decrease must be viewed in the light of the industry decrease in the year which was around 5 per cent according to the CPA. The DIY market suffered worst being around 10 per cent down whereas installed sales showed a 1 per cent increase. The second half of the year showed an improvement compared with the first half which had been around 2 per cent down on the previous year.

The results of the Falkirk Transformation Centre have been positive and sales of landscaping products in the Falkirk area have increased which is in contrast to the market trend. The Centre broke even in 2005, at the local operating level, and is forecast to make a positive contribution in 2006. Two further pilots, at Bramhall, Cheshire and Roxton, Bedfordshire, are being rolled out in the first half of 2006 with further centres planned in the future so as to give national coverage.

Public Sector and Commercial revenue comprises the remaining 50 per cent of Group revenue. Like for like revenue showed an increase of 3.7 per cent in the year reflecting an approximate 2 per cent contribution from both price increases and volume growth.

The acquisitions made in 2004 are being progressively integrated into the expanded market offer and this will continue in 2006.

Financial KPIs

The key financial KPIs were set out on page 8 and measured against current performance can be set out as follows:

- Revenue growth over a rolling three year period

  Against a target of 7 per cent per annum the Group has achieved a CAGR of 6.9 per cent over the last three years.

- Earnings per share growth over a rolling three year period

  Against a target of RPI + 6 per cent per annum on a CAGR basis (which for the three years ended 31 December 2005 equates to 8.8 per cent) the Group has achieved a CAGR of 4.1 per cent. Before works closure costs the growth rate was 6.8 per cent.

- Return on capital employed (ROCE) is defined as EBITA / Shareholders' funds plus net debt

  ROCE for 2005 was 21.0 per cent which compares with the long term target of 20 per cent.

Polesden Lacey Flagstones

An additional financial KPI relates to cash flow targets and the Group's cash generation performance is described on page 17.

Segmental Reporting

During the year the Directors undertook a review of the Group's continuing operations and its associated business risks and for the year ended 31 December 2005 consider that the continuing operations should be reported 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 and reported as a single business segment in line with the Group's internal reporting framework.

Net Financial Expenses

Net financial expenses were £6.4 million (2004: £6.7 million) which is made up of external interest on borrowings (including debenture interest) of £4.9 million (2004: £4.8 million) and IAS 19 notional interest of £1.5 million (2004: £1.9 million). The IAS 19 notional interest comprises interest on obligations under the defined benefit pension scheme net of the expected return on scheme assets. The slight increase in external interest on borrowings reflects the financial impact of servicing the Return of £75 million to shareholders in 2004 and the cash outflow of £15.7 million to finance four acquisitions in that year offset by the impact of the proceeds of £65.0 million from the sale of the Clay business on 4 January 2005. During the year dividends totalling £132,000 were paid to the B shareholders in respect of the period ended 31 December 2005 and in accordance with IFRS these have been disclosed within net financial expenses. Interest cover remained healthy at 6.9 times (2004: 7.0 times).

Taxation

The tax charge for 2005 was £11.7 million (2004: £12.2 million) which represented an effective rate of 30.7per cent (2004: 30.4 per cent). A deferred taxation asset of £19.6 million (2004: £15.3 million) has been established in relation to the net liability for defined benefit obligations of £65.3 million (2004: £50.9 million).

Dividends

The Group's dividend policy continues to be that dividends should move in line with medium term earnings growth.

An interim dividend of 4.10 pence (2004: 3.90 pence) per share was paid on 7 December 2005. A final dividend of 8.40 pence (2004: 8.00 pence) per share is now being recommended for payment on 7 July 2006. This gives a total of 12.50 pence (2004: 11.90 pence) per share for the year which represents an increase of 5.0 per cent over 2004.

On an IFRS basis, which does not account for the final dividend until it is approved at the forthcoming Annual General Meeting, the dividend for the year ended 31 December 2005 is 12.10 pence (2004: 11.25 pence) per share which represents an increase of 7.6 per cent. On an IFRS basis dividends are covered 1.5 times (2004: 1.6 times).

Analysis of Net Debt

Analysis of net debt	**2005**	2004
	£'m	£'m
Bank	**23.4**	83.4
11.375% debenture stock	**20.0**	20.0
B shares	**2.8**	4.2
Finance lease liabilities	**0.5**	0.6
Net debt	**46.7**	108.2
Net assets	**166.3**	131.5
Gearing	**28.1%**	82.3%

The above table shows an analysis of net debt at 31 December 2005. Net debt has reduced from £108.2 million to £46.7 million during the year largely due to the cash inflow of £65.0 million from the sale of Marshalls Clay Products on 4 January 2005. Gearing has fallen from 82.3 per cent to 28.1 per cent over the same period.

Total bank borrowing facilities at 31 December 2005 amounted to £130 million (2004: £130 million) of which £106.6 million (2004: £46.5 million) remained unutilised. The Group's peak seasonal working capital requirements run from 1 February until 31 July and an additional working capital facility of £15.0 million is available between these dates. Of the total bank facilities of £130 million, £90 million are in respect of a committed three year loan facility with the remaining £40 million being uncommitted and repayable on demand. The bank facilities are unsecured other than for inter company cross guarantees between the Group's subsidiary undertakings.

The 11.375 per cent £20 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.

During the year 2,969,124 B shares were redeemed at 45 pence per share at a cost of £1,336,000. As a consequence of these redemptions an amount of £1,336,000 has been transferred to the capital redemption reserve from retained earnings. Holders of B shares are able to make elections to have their B shares redeemed at 45 pence per share semi annually on 30 June and 31 December. In addition the shares may now be redeemed at any time at the Company's option.

Cash Generation

The Group is cash generative. In the year ended 31 December 2005 the cash inflow from continuing operations was £59.1 million (2004: 48.8 million). This cash generation has been utilised as follows:

Analysis of cash utilisation

	2005	2004
	£'m	£'m
Cash inflow from continuing operations	**59.1**	48.8
Interest and taxation	**(16.2)**	(14.3)
Operational cash generation	**42.9**	34.5
Organic investment (capital expenditure)	**(20.7)**	(27.4)
Strategic investment (acquisitions)	**(8.7)**	(15.7)
Sale of business	**65.0**	-
Other financing items	**1.4**	3.7
Cash returned to shareholders	**(18.3)**	(90.1)
Movement in net debt	**61.6**	(95.0)
Cash returned to shareholders as a percentage of operational cash generation	**42.7%**	261.2%

Rio Rectangular Paving, Sand Colour

The cash inflow from continuing operations was £59.1 million after incurring £3.0 million of works closure costs and a net cash outflow from working capital of £4.0 million (2004: £13.8 million outflow). Corporation tax payments in the year amounted to £11.3 million (2004: £13.6 million).

The other significant cash flow movements in the year are the proceeds from the sale of the Clay Products business, the net outflow from the acquisition of Paver Systems (Carluke) Limited and a net outflow of £20.7 million in relation to capital expenditure. This capital expenditure represents a reduction of over 20 per cent from the prior year figure of £26.5 million. Included within capital expenditure is approximately £3.1 million for the purchase of the quarry and property assets of Stoke Hall Quarry in Derbyshire and the net proceeds from the sale of surplus properties and other assets of £3.2 million.

Ordinary dividend payments in the year were £17.2 million and in total an amount of £128.8 million has been returned to shareholders in the last three years. This includes £75 million by way of the Return of Value, to improve the Group's capital structure and balance sheet efficiency in 2004, and £52.8 million by way of regular dividend payments. The utilisation of cash over this three year period is best illustrated by the following summary which demonstrates that approximately 86 per cent of operational cash generated in the last three years has been returned to shareholders.

Analysis of cash utilisation, 2003-2005

	£'m
Operational cash generation	149.7
Organic investment (capital expenditure)	(87.0)
Strategic investment (acquistions)	(26.4)
Sale of business	65.0
Cash returned to shareholders	(128.8)
Other financing items	(1.1)
Movement in net debt	(28.6)
Cash returned to shareholders as a percentage of operational cash generation	86.0%

	2002	**2005**
	£'m	**£'m**
Net debt	(18.1)	**(46.7)**
Net assets	180.2	**166.3**
Gearing	10.1%	**28.1%**

Prior to the end of 2003 capital expenditure in the previous three years amounted, in total, to over £100 million following a major programme of new product innovation and the development of the Regional Service Centre structure. In the three year period to 31 December 2005 the Group has re-invested £87.0 million. This has provided the Group with industry leading manufacturing and distribution facilities. It has also provided new product manufacturing capability and enabled improved productivity. Capital expenditure has been reduced in each of the last two years and the current level of approximately £20 million is likely to be a sustainable level over the medium term. At this level the Group will be able both to maintain its commitment to new product development and invest in new initiatives to improve overall manufacturing efficiency.

The Group has also invested £26.4 million in acquisitions as part of the strategy of capitalising on Marshalls' brand and unique access to Nationwide distribution channels.

As explained earlier, the Group's cash generation performance against detailed cash flow targets is one of the main KPIs and in 2005 the targets that were set by the Board were achieved. At the time of the Return of Value of £75 million to shareholders in 2004 the Directors recognised that a year end gearing percentage of around 60 per cent represented an efficient balance sheet structure. Following the sale of Marshalls Clay Products gearing has reduced and at 31 December 2005 was 28.1 per cent.

The Board is committed to ensuring that the balance sheet is efficient. The Group has demonstrated an ability to identify, acquire, integrate and grow complementary bolt-on acquisitions which, whilst individually small, collectively make a difference. There are an increasing number of bolt-on opportunities available for Marshalls to consider and the Group is spending more time targetting these to create greater value for shareholders. The Group's objective is to increase the flow of suitable acquisition candidates.

Balance Sheet

Net assets at the year end were £166.3 million (2004: £131.5 million) which amounted to 116.3 pence (2004: 92.7 pence) per share.

A significant balance sheet item is the liability for defined benefit pension obligations, in accordance with IAS 19, which at 31 December 2005 was £65.3 million (2004: £50.9 million). This balance is made up of £212.2 million in respect of the present value of funded obligations net of £146.9 million for the fair value of plan assets. The net balance of £65.3 million represents an increase of around 28 per cent in the last year. The deficit has been determined by the scheme Actuary using prudent assumptions in line with current market levels. The assumptions that have changed in the last year are a reduction in the AA corporate bond rate from 5.4 per cent to 4.8 per cent, in line with market movements, and a strengthening of the mortality rate. These factors have significantly outweighed the impact of positive asset performance in the year. An IAS 19 actuarial loss of £12.2 million (before deferred taxation) has been recorded in the Consolidated Statement of Recognised Income and Expenses.

The deficit is net of curtailment gains of £752,000 arising on the sale of the Clay business and the closure of two works in the year.

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 uses financial instruments to manage certain financial risks arising from its operations. All transactions are undertaken only to manage the current risk associated with the Group's underlying business activities.

The main risks arising from the Group's financial instruments are interest rate risk, liquidity risk and foreign currency risk. The Board reviews and agrees policies for managing each of these risks and these are summarised on Note 17 on pages 67 to 70 of the Financial Statements. These policies have remained unchanged since 2004. It is the Group's policy, and has been throughout the period under review, that no speculative trading in financial instruments shall be undertaken.

Aztec Sun

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. An interest rate hedge has been entered into to manage the effect of the increased exposure to interest rate increases. 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

Market intelligence shows that Public Sector and Commercial demand, which represents half of Group revenue, remains robust. The CPA forecasts that the Public Sector and Commercial market will grow by 2.9 per cent in 2006 and a further 3.8 per cent in 2007. From 2008 onwards building for the 2012 Olympics will start to have a benefit.

By contrast, the Domestic market is expected to remain challenging in 2006 with the CPA forecasting a decline of 1.0 per cent in private housing repair, maintenance and improvement expenditure before an increase of 3.0 per cent in 2007. Domestic installers' average order books remain constant and are currently 8.4 weeks (2005: 8.3 weeks).

Order intake and despatch volumes since the year end have been at a similar level to early 2005. Marshalls continues to develop its integrated offer for the Public Sector and Commercial market and its consumer initiatives for the Domestic market as well as continually reviewing its cost base. These improvements complemented by recent acquisitions and a strong balance sheet ensure that the Group is well positioned to operate in the challenging market conditions anticipated in 2006 and to take advantage of the expected market improvements in 2007.

Directors Biographical Notes

Mike Davies (58) •
Non-Executive Chairman

Joined the Board in October 2004. He is currently the Senior Independent Non-Executive Director at Taylor Woodrow plc and a Non-Executive Director of Pendragon plc. He also serves as a Non-Executive Director on the Boards of a number of private companies.

Graham Holden (46)
Chief Executive

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

Ian Burrell (48)
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 (40)
Executive Director

Joined the Group in March 2001 and is currently Managing Director of Marshalls Landscape Products. He was appointed to the Board in November 2004.

Richard Scholes (60) •*†
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 and Chairman of the Audit Committees of Bodycote International plc, Chaucer Holdings PLC and Crest Nicholson PLC. He is also a Non-Executive Director of Keller Group PLC and is a Chartered Accountant.

Andrew Allner (52) •*†
Independent Non-Executive Director and Chairman of the Remuneration Committee

He was appointed to the Board in July 2003. He is the Group Finance Director of RHM plc and was previously Chief Executive Officer of Enodis Plc. He is a Chartered Accountant and a former partner of Price Waterhouse.

Bill Husselby (66) •*†
Independent Non-Executive Director

He was appointed to the Board on 7 March 2005. He is Chairman of Cogent Elliot Group, the independent advertising agency and is a Board member of Welsh National Opera.

• Member of the Nomination Committee
* Member of the Audit Committee
† Member of the Remuneration Committee

Elizabeth Blease
Company Secretary

Advisers

Stockbrokers

HSBC Investment Bank Plc
Bridgewell Securities Limited

Auditors

KPMG Audit Plc

Legal Advisers

Herbert Smith
Eversheds LLP

Financial Advisers

N M Rothschild & Sons Limited

Bankers

Royal Bank of Scotland plc
Lloyds TSB Bank plc

Registrars

Computershare Investor Services plc
PO Box 82, The Pavilions
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Bristol BS99 7NH

Shareholders' enquiries should be addressed to the Registrars at the above address (Tel: 0870 702 0000)

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Internet address: www.marshalls.co.uk

Registered in England and Wales: No. 5100353

Corporate Social Responsibility

Marshalls believe in conducting its business in a manner which achieves sustainable growth whilst incorporating and demonstrating a high degree of social responsibility. Marshalls regard Corporate Social Responsibility (CSR) as a journey, in the course of which it aims to align increasingly its business values, purpose and strategy with the social and economic needs of its stakeholders, whilst embedding responsible and ethical business polices 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 responsible for managing the key elements of the CSR policy and during the year a full time CSR manager was appointed to develop further and implement the CSR strategy. The CSR manager is now working towards the development of key performance indicators and a separate report to describe further CSR progress over time.

Marshalls is pleased to be a constituent member of the FTSE4Good UK Index.

The Work Place

Employees

The Group's Statement of Values and Principles sets out the high standards to which all Marshalls' employees are encouraged and expected to adhere. The statement includes guidance on business practice, entertainment and equal opportunities. There is a published process through which employees can raise, in confidence, serious concerns about possible improprieties.

Marshalls believe that people are the key to the success of the business and recognise the diversity of the community, employees and customers. The Board is committed to promoting and maintaining a working environment where all individuals are treated with dignity and respect and where individual talent is recognised and valued.

Marshalls aim to achieve this by adopting fair and merit-based employment policies, with equal opportunities and other relevant legislation being applied as the minimum acceptable standard. Disabled people are provided with equality of opportunity in employment and adjustments are made, wherever reasonably practicable, to ensure that they are not disadvantaged.

Managers are responsible for ensuring that employees are properly inducted into the Company and provided with the necessary support to fulfil their roles effectively and to help develop their full potential. Particular focus is placed on interpersonal skills and customer service in order to continue to improve the service provided to its customers.

Investment in management development continues with programmes in place which identify and nurture potential, ensure consistent management practices are applied and provide opportunities for succession into more senior roles.

An increasing emphasis is being placed on internal communication to employees through the use of e-mail, intranet, newsletters, briefings and both formal and informal presentations.

Further development of information and consultation processes will continue during 2006, continuing the improvement in communications through the increased involvement of recognised Trades Unions and employee representatives.

Employees are actively encouraged to donate funds to charity through payroll which accounted for approximately £23,000 in 2005.

Southampton NHS General Hospital

Health and Safety

Marshalls consider health and safety to be one of its highest priorities and a fundamental characteristic of being a successful business. The Group is now into the ninth year of formal Health and Safety improvement plans. These plans focus on the elimination of hazards and minimisation of risk as well as incorporating significant employee training in health and safety awareness and incident prevention. The training is supported by the Group's Employee Health and Safety Handbook. Health and Safety improvement remains a key area of attention for 2006 and this is reflected in the priorities of all Managing Directors and employees.

At factory level, health and safety is promoted by Safety, Health and Incident Prevention Teams which consist of employees and managers. These teams continue to be the cornerstone of the safety management system and make a significant contribution to the improving safety performance. The Group has identified its major health and safety risk as being from repetitive manual handling processes and it is the Group's policy to eliminate manual handling wherever practicable.

The Group is now in its third year of implementing BSI-accredited Integrated Management Systems which incorporate accreditation to OHSAS 18001. At the end of 2005 the Group had secured accreditation to OHSAS 18001 for locations representing 55.55 per cent of all employees. Remaining locations are scheduled to seek accreditation during 2006 and 2007.

In the course of 2005 the Group piloted a Behavioural Safety Programme at three locations. This programme aims to identify and resolve unsafe acts in a positive non-judgemental manner. The programme will be progressively rolled out across the Group.

As reported in previous years the Health and Safety Executive (HSE) initiated a personal prosecution against the former Chairman, Christopher Burnett, in respect of a failure to comply with an Improvement Notice issued by the HSE in early 2002 at one of the factories in the former Clay Products business which was sold on 4 January 2005. The charges were dismissed in May 2005 after the prosecution offered no evidence.

The Board monitors the Group's accident statistics on a monthly basis. The overall rate of workplace injuries within the Group continues to fall. The number of accidents legally reportable under the Reporting of Injuries, Diseases and Dangerous Occurrence Regulations (RIDDOR) has fallen from 33.0 per 1,000 employees in 2004 to 24.6 per 1,000 employees in 2005. The target is to reduce RIDDOR injuries by a further 10 per cent in 2006.

Accidents and Incidents (rate per 1,000 employees)	**2005**	2004
Major injury	**2.7**	3.8
Injury resulting in over 3 days absence from work	**21.9**	29.2
All RIDDORS	**24.6**	33.0
Average UK headcount	**2,884**	3,222

The Community

The Group is keen to contribute to the communities in which it operates particularly those neighbouring its sites. This is achieved through active participation in local community forums, events, charitable donations and other initiatives that help the community.

School Visit to Marshalls at Llay

During the year, the Group made charitable donations of £24,115 (2004: £18,745). It is the Group's policy not to make political donations and no political donations were made in the year (2004: £Nil).

Marshalls continues to work with local communities in close proximity to its sites which enables it to donate products to community groups and local charities to help transform the local environment for the people they serve.

At the corporate level Marshalls is a member of Business in the Community whilst locally encouraging management to form mutually supportive relationships with their immediate communities. At site level in 2005 Marshalls contributed to many locally organised initiatives including educational school visits, sponsorship of numerous community events and participation on local regeneration initiatives.

The Market Place

The Group recognises the importance of building and maintaining positive relationships with its customers, suppliers and contractors.

There is a commitment to a process of continual improvement in meeting customers' requirements and expectations. This is highlighted in the 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 ensures that there is no bias or conflict of interest and all suppliers will be treated fairly and without prejudice. 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.

The Environment

Marshalls is committed to assessing and managing the environmental impacts of all its operations. The Environmental Report is on pages 24 to 27.

Social and Ethical Responsibilities

The Group takes its Social and Ethical responsibilities very seriously and in December 2005 was accepted as a member of the Ethical Trading Initiative (the ETI). As a member of the ETI it is committed to adopting the ETI Base Code on a progressive basis throughout its supply chains with specific focus on China and India. The Code is based on International Labour Organization conventions and as such is widely acknowledged as a model code of labour practice. It contains provisions based on a number of principles which include respect for freedom of association and the right to collective bargaining, safe and hygienic working conditions and working hours that are not excessive. Child labour is not permitted and harsh or inhumane treatment is not allowed.

As well as adopting the ETI Base Code, the Group has also committed to monitoring and independent verification of its supply chains, awareness-raising and training, driving year-on-year improvements, assessing the impact of its core business activities on labour standards, reporting annually to the ETI on progress and participating in ETI projects.

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 was reviewed in January 2006 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 being implemented 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.

Marshalls has committed to monitor its environmental performance in line with the Construction Product Association requirements. Environmental aspects are identified at each site and corresponding objectives and targets set to reduce the significance of impacts in those areas. These will be reviewed on at least an annual basis to ensure continual improvement.

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 wildlife value wherever possible. Work towards achieving Group registration to the Wildlife's Trust Biodiversity Benchmark is progressing, advancing with learning gained from the pilot site. The Group also recognises the need for sympathetic restoration and after use of quarry sites and considers the character of the local environment and the concerns of the community when planning such matters".

Environmental Management

During the year the Group continued the roll out of Integrated Management Systems ("IMS") at each of its manufacturing sites. The IMS combine ISO 9000 – 2000 for Quality Management, OHSAS 18001 for Health and Safety Management, and ISO 14001 for Environmental Management.

At the end of 2005 the Group had 39 operational sites. Of these sites:

24 had ISO 9000 : 2000 Quality Management Systems in place, representing 81.5 per cent of the Group's manufacturing output;

20 had Health and Safety Management Systems to OHSAS 18001 in place, representing 79.7 per cent of the Group's manufacturing output; and

16 have ISO 14001 for Environmental Management, representing 61.9 per cent of the Group's manufacturing output.

IMS therefore covers 61.9 per cent of the Group's manufacturing output. All the Group's accreditations are accredited through BSI.

A plan is in place to continue this roll out programme with the aim of completing the accreditation of the majority of the sites by the end of 2007. The roll out programme has been extended to include the businesses which were acquired during 2004. None of the new sites acquired held any robust Management Systems for the three disciplines.

Environmental Impact

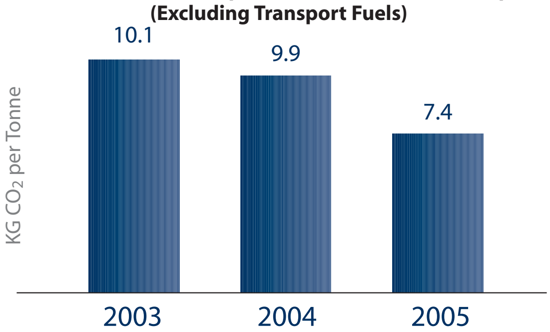
The Group continues to review the significant environmental impacts of its operations and utilises the CPA KPIs to measure the impacts year on year. The CPA KPIs are all based on a consistent "per tonne of production output" measure. Each KPI has been presented graphically showing two years of comparative data. With the exception of the energy KPI, the comparative statistics include the relevant data for the discontinued Clay Products business which was sold on 4 January 2005. For the energy KPI, however, the impact of the former Clay Products business has been removed from the 2003 and 2004 figures, as it was a significant high energy operation. The impact of the Clay Products business on each of the other CPA KPIs has not been significant and consequently, in each case, the 2003 and 2004 figures have not been restated. KPIs are as follows:-

Energy

The KPI for energy consumption is "amount of energy consumed (kg CO_2) at manufacturers site per tonne of production output".

The bar chart below illustrates the Group performance for 2003 – 2005.

KG of CO_2 Consumed per Tonne of Production Output (Excluding Transport Fuels)



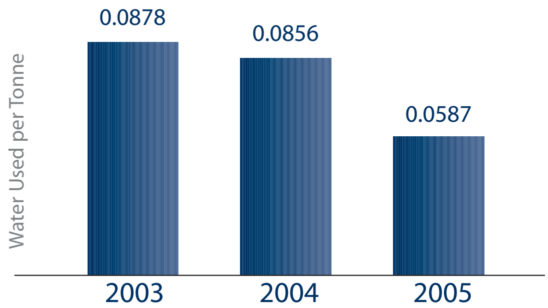
As part of the continuous improvement requirements of BS EN ISO 14001 targets are being set for the reduction of energy. Due to the requirements of different processes, each precast concrete manufacturing site will have an individual target with the aim to save a minimum of 5 per cent of energy consumed per month by the end of 2006.

Water Use

Significant progress continues to be made in the recycling and harvesting of water with a consequential reduction in the purchase of treated water.

The CPA KPI for water usage is "volume of water used on site (including office use) from controlled waters, i.e. mains and extracted water per tonne production output".

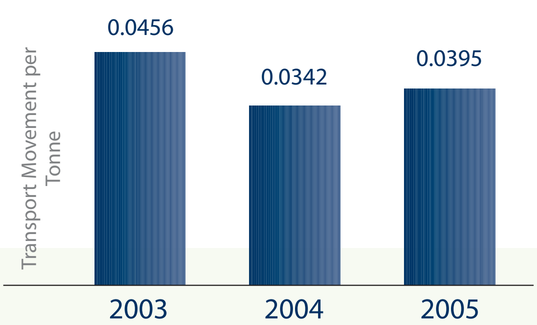
Water Used per Tonne of Production Output



The Group monitors discharge water on a monthly basis at all sites producing precast concrete. Third party testing took place during the year and no concerns were raised by the relevant authorities.

Transport

The Group monitors deliveries made on its own vehicles and those made on vehicles of sub contractors employed by the Group. Collections by Builders Merchants from the Group Service Centres using their own vehicles are not included in the Group figures. The CPA KPI is "number of transport movements (leaving site) made by a company or its contractor via road, rail, water or other per tonne of production output".

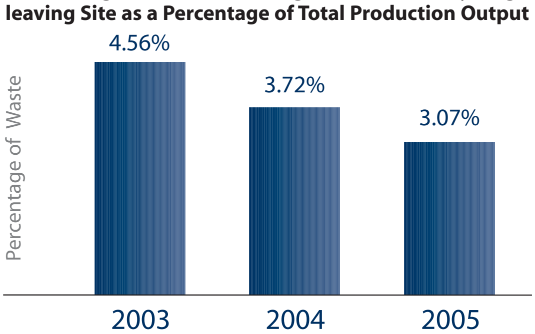


The overall transport efficiency remains high but the KPI shows a slight reversal over 2004. This is explained by the more diverse nature of the Group's product range. Mortar deliveries, for example, require smaller vehicles carrying fewer tonnes for each journey than the more traditional precast concrete and natural stone products. The Group's precast concrete transport operations won third place in the British Precast Concrete Federation Sustainability Awards in 2005. The entry was the only transport operation entered in the Awards.

Waste Reduction

A single waste contractor has been appointed to manage all waste activities with the aim of obtaining the maximum benefit for the recycling of waste streams from the Group. The partnership approach is leading to much better control of waste, overall reduction in waste quantities and a clear segregation of waste streams which cannot be recycled to ensure the correct disposal routes.

The CPA KPI for waste reduction is "amount of waste leaving site (tonnes) as a percentage of total production output".



The Group works hard to remove waste from its operations wherever possible. The CPA KPI does not differentiate between waste leaving site for landfill and waste leaving site for recycling by third parties. Analysis shows that out of the total Group waste stream, recycling on site and recycling off site accounted for 81.4 per cent of the Groups waste, with only 18.6 per cent going to landfill.

Waste materials from other industries are being used where appropriate as aggregate replacement with some innovative products resulting from the incorporation of such materials. China clay waste, steel slag waste, slate waste and slag cements are typical of the products being utilised.

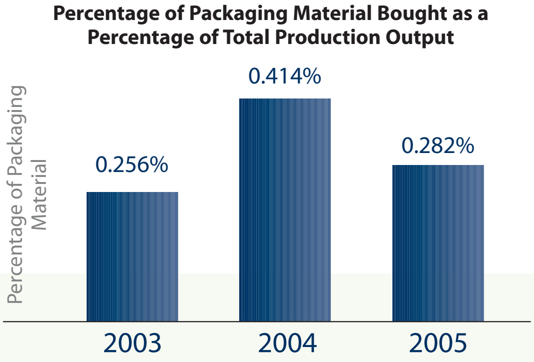
Packaging

The Group continues to explore every opportunity to reduce the amount of packaging used to ensure safe transport and handling of its products but also to ensure minimum damage and wastage of product between manufacturing site and point of use.

Suppliers of packaging products are monitored to ensure that either the supplies are obtained from sustainable sources, in the case of pallet timber, or wherever possible from recycled materials such as strapping.

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

The KPI has shown a reduction in 2005 for three main reasons. Firstly, the Group is increasingly using suppliers who provide more efficient packaging and, secondly, an increase in the volume of aggregates being despatched has improved the statistic as these deliveries have no packaging content. Finally, the increase in the use of timber pallets in 2004, which was commented on in last year's Annual Report, has been reversed and 2005 has seen a reduction in the use of timber pallets and the associated packaging.



Suppliers and Contractors

Suppliers and contractors are monitored closely and, in particular, on the environmental aspects of their operations. During the year, there has been increasing liaison with key suppliers to ensure that their own operations cause minimal harm to the environment and to share best practice to ensure the Group benefits from the environmental experience of its suppliers.

Environmental Impact of Products

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

Sustainability

Marshalls continues to support the work being carried out by The British Precast Concrete Federation Sustainability Committee. During 2005 the Group published its own Sustainability Document. It is developing a Sustainability Policy based upon its IMS systems which provides a basis for decision making. Economic activity is considered, reinforced by the targets and objectives in the ISO 9000 accreditation. Environmental activities are considered by the targets and objectives in ISO 14001 and in addition social activities are supported by the OHSAS Health and Safety accreditation.

Land Management

During 2005 all of the Groups' major construction projects were contained within existing sites or were on brown field sites.

Wildlife Trust

During 2005 the Wildlife Trust helped in the establishment of a Biodiversity Benchmarking Project at the site in Maltby. This has proved successful, particularly, in raising staff awareness of the wide ranging biodiversity at the site. The Project has drawn members of the local community into the site. It is intended during 2006 to roll out this programme across other sites in the Group.

Environmental Awareness and Training

The Group continues to develop environmental awareness among its employees.

Awards

During the year, Marshalls received the Best Single Site Award in the British Precast Concrete Federation Annual Sustainability Awards, for its work on water recycling and biodiversity at its Eaglescliffe site.

Octagon Alton Greenhouse

Directors' Report

The Directors have pleasure in submitting their Report and Financial Statements for the year ended 31 December 2005. The Consolidated Group Financial Statements have been prepared under International Financial Reporting Standards ("IFRSs"). The Parent Company Financial Statements have been prepared in accordance with UK Accounting Standards.

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. Further details of the principal activities of the Group are set out in Note 34 on page 88.

The Chairman's Statement on pages 4 and 5 and the Operating and Financial Review on pages 7 to 19 contain a review of these activities.

Details of the Group's policy in relation to employees and information on charitable and political donations are disclosed on pages 21 to 23.

Details of the Group's policies in relation to Corporate Governance are disclosed on pages 31 to 36.

Group Results

The Consolidated Income Statement for the year ended 31 December 2005 is shown on page 46.

Dividends

The Board is recommending a final dividend of 8.40 pence (2004: 8.00 pence) per share which, together with the interim dividend of 4.10 pence (2004: 3.90 pence) per share, make a combined dividend of 12.50 pence (2004: 11.90 pence) per share. Payment of the final dividend, if approved at the Annual General Meeting, will be made on 7 July 2006 to shareholders registered at the close of business on 9 June 2006.

The dividend declared and paid in the year to 31 December 2005 and disclosed in the Consolidated Income Statement is 12.10 pence (2004: 11.25 pence) per share being the 2004 final dividend of 8.00 pence (2003: 7.35 pence) per share and the interim dividend of 4.10 pence (2004: 3.90 pence) per share in respect of the year ended 31 December 2005 and paid on 7 December 2005. This follows the disclosure under IFRSs.

Share Capital

Details of the share capital and allotments during the year are set out in Note 20 on pages 75 and 76. Details of outstanding options under Employee Share Schemes are set out in Note 18 on page 73.

Directors

Details of each of the Directors who served throughout the year, together with biographical details, are set out on page 20. On 7 March 2005 Bill Husselby was appointed as an independent Non-Executive Director.

Mike Davies, Richard Scholes and David Sarti will retire by rotation at the Annual General Meeting. All these Directors, being eligible, offer themselves for re-election in accordance with the Company's Articles of Association.

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

Directors' Interests

Full details of Directors' remuneration, interests in the share capital of the Company and of their share options are set out on pages 37 to 43 in the Directors' Remuneration Report.

Charitable and Political Donations

Details of the charitable donations made during the year are set out in the Corporate Social Responsibility Statement on pages 21 to 23.

Disposals and Acquisitions

On 4 January 2005 the Group sold the entire share capital of Marshalls Clay Products Limited to Hanson PLC.

On 2 September 2005 the Group acquired the entire share capital of Paver Systems (Carluke) Limited, a concrete products business.

Fixed Assets

The Group continues to invest in the business with net capital investment in the year of £20.7 million (2004: £26.5 million). This includes £3.1 million in respect of the Stoke Hall Quarry property, in Derbyshire, a natural stone reserve that will form part of Stancliffe Stone, the existing stone walling, cladding and masonry business and is net of £4.4 million proceeds from the sale of surplus properties.

In the opinion of the Directors, the market value of the Group's properties is not materially different from the value included in the Group Consolidated Financial Statements.

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 2005 was 52 days (2004: 48 days).

Substantial Shareholdings

As at 10 March 2006, the Company had been notified of the following substantial beneficial interests of 3 per cent or more in its ordinary issued share capital:

	%
M&G Investment Management Limited	10.52
AXA S.A.	8.07
Legal and General Investment Management Limited	3.55

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 the Directors are required to prepare the Group Financial Statements in accordance with IFRSs as adopted by the EU and have elected to prepare the Parent Company Financial Statements in accordance with UK Accounting Standards. The Group Financial Statements are required by law and IFRSs as adopted by the EU to present fairly the financial position and 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.

Annual General Meeting

The Notice convening the Annual General Meeting to be held at Birkby Grange at 12 noon on Wednesday 24 May 2006, together with explanatory notes on the resolutions to be proposed, is contained in a circular to be sent to shareholders with this Report.

Auditors

A resolution to re-appoint KPMG Audit Plc as Auditors to the Company and to authorise the Directors to determine their remuneration will be proposed at the Annual General Meeting.

By Order of the Board
Elizabeth Blease
Company Secretary
10 March 2006

Corporate Governance

Marshalls 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 appended to the Listing Rules of the Financial Services Authority (the Code) and for which the Board is accountable to shareholders.

Statement of Compliance with the Code

Throughout the year ended 31 December 2005, the Company has complied with the Code in all material respects, with the following minor exceptions:

- Following a review of the existing Terms of Reference for the Board's Nomination, Audit and Remuneration Committees, updated editions were published on the Company's website in March 2006. Copies of the Terms of Reference were available during 2005 by request.
- For the first two months of the year the Company did not comply with the provision requiring that at least half of the Board, excluding the Chairman, should comprise independent Non-Executive Directors. The Audit and Remuneration Committees did not comply with the provision requiring these Committees to have at least three members. On the appointment of Bill Husselby on 7 March 2005 as an independent Non-Executive Director and member of the Audit and Remuneration Committees, the Company complied with these provisions for the rest of the year.
- The Board did not arrange individual Director evaluation. There had been many changes to the Board over the previous two years and although the Board did undertake an evaluation of itself and the Executive and Non-Executive Directors collectively, it did not believe at this early stage that there would be merit in arranging individual Director evaluations. The Directors who are retiring by rotation and seeking re-election at the Annual General Meeting have undergone performance reviews.
- The division of responsibilities between the Chairman and Chief Executive have not been set out in writing and approved by the Board. They have been drafted and will be put to the Board for approval when finalised during 2006.

The paragraphs below, together with the Directors' Remuneration Report set out on pages 37 to 43 and the Report of the Audit Committee set out on page 44 describe how these principles are applied within the Company.

Directors

The Board, balance and independence

The Board is scheduled to meet nine times each year with additional meetings called if required. The Board has a Schedule of Matters reserved to it. Medium and long-term strategy is frequently discussed and meetings are held with 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 Nomination, Audit and Remuneration 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 bank documentation, dividend payments and preliminary and interim 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 those business entities. They 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 operation in conjunction with local management. 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 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 Biographical details of the Directors are on page 20.

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

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 will be recorded in the Board minutes. Further, on resignation, if a Non-Executive Director had 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.

The attendance of the Directors at the Board and principal Board Committee meetings during the year are detailed in the table below:

	Board (9 meetings)	Nomination Committee (1 meeting)	Audit Committee (4 meetings)	Remuneration Committee (3 meetings)
Mike Davies	9	1	n/a	n/a
Andrew Allner	8	1	4	2
Ian Burrell	9	n/a	n/a	n/a
Graham Holden	9	n/a	n/a	n/a
Bill Husselby *	7	n/a	3	2
David Sarti	9	n/a	n/a	n/a
Richard Scholes	9	1	4	3

Notes:
* Bill Husselby was appointed on 7 March 2005 and he attended all Board and Committee meetings from that date.

Chairman and Chief Executive

The positions of Chairman and Chief Executive are held by separate individuals. The Chairman is primarily responsible for the effective working of the Board and ensuring that each Director, particularly the Non-Executive Directors, are able to make an effective contribution. The Chief Executive has responsibility for all operational matters which include the implementation of the Group Strategy and policies approved by the Board.

The Chairman at the time of his appointment met and continues to meet, the independence criteria set out in the Code.

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 were reviewed during the year and are available on the Company's website at 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 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. For a particular appointment it will use this evaluation to prepare a description of the role and capabilities required. This Committee did prepare a job specification, including an assessment of the time commitment expected, when it appointed the current Chairman and would adopt this process again in the future.

The Nomination Committee leads the process for Board appointments and makes recommendations to the Board about filling vacancies on the Board, appointing additional persons to the Board and 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. None of the Executive Directors hold a Non-Executive Directorship.

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.

New appointments to the Board have experience and skills to bring to the Company. 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.

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.

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. A questionnaire was completed by each Board member on the effectiveness of the Board. Questionnaires were also completed on the effectiveness of the Non-Executive and the Executive Directors. Feedback on the points raised was considered by the Board. The exercise was viewed positively by the Directors and it will be undertaken again during the course of the current financial year. Following this evaluation the Board has set itself objectives for the year.

The three principal Board Committees have undertaken performance evaluations. During 2006 the Board will establish a process of performance evaluation of its individual Directors. As set out above there is an established process to evaluate the performance of the Chairman.

Re-Election

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 are subject to the Companies Acts' provisions relating to the removal of a Director. The Nomination Committee has ensured that performance evaluations for each Director who is retiring by rotation and being proposed for re-election have been undertaken. In the circular to shareholders, accompanying the resolution to re-appoint a Non-Executive Director, the Board will explain why it believes that the Non-Executive Director should be re-appointed. The Chairman will confirm to shareholders when proposing re-appointment that, following a formal performance evaluation, the individual's performance continues to be effective and that they continue to demonstrate commitment to the role.

Currently none of the Non-Executive Directors has served more than three years. Any Non-Executive Directors serving more than six years will be subject to a particularly rigorous review.

Directors' Remuneration

Details of the Directors' remuneration are set out in the Remuneration Report on pages 37 to 43. 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.

Accountability and Audit

Financial Reporting

In presenting the Annual and Interim 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 and the Independent Auditors' Report on pages 29 and 45 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 Group's risk management and internal control system for the year to 31 December 2005 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 44. 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.

Going Concern

The Directors consider, after making appropriate enquiries 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 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 reported 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.

If requested, the Non-Executive Directors are available to attend meetings with major shareholders. The Board regularly receives copies of analysts' and brokers' briefings.

The Annual and Interim 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 despatched 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.

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

The Chairmen of the Nomination, Audit and Remuneration Committees usually 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.

The Company counts all proxy votes and the Chairman informs shareholders of the level of proxies lodged on each resolution. The votes for and against each resolution, together with the number of abstentions, are given following the show of hands. The Company Secretary ensures that votes cast are properly received and recorded.

Directors' Remuneration Report

The Report is divided into two sections, unaudited and audited information in accordance with Schedule 7A of the Companies Act 1985. The audited information commences on page 40.

The Remuneration Committee

During the year the Remuneration Committee (the Committee) members were Andrew Allner, who chairs the Committee, and Richard Scholes both of whom are independent Non-Executive Directors. Bill Husselby, also an independent Non-Executive Director, was appointed a member of the Committee with effect from 7 March 2005. Members of the Committee have no personal financial interest in the Company other than as shareholders and the fees paid to them as Non-Executive Directors. They are not involved in the day-to-day running of the Group.

Both the Chairman and Chief Executive, although not members of the Committee, on occasions, and for matters not related to themselves, attend meetings and participate in discussions on salary and incentive packages.

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 has no authority in relation to the remuneration of the Non-Executive Directors whose fees are determined by the Board, after consultation with external advisers. The remuneration of the Chairman is determined by the Board following a recommendation of the Committee.

In its deliberations the Committee gives full consideration to the principles of good governance and the code of best practice within the Combined Code on Corporate Governance (the Code). The Committee has its own terms of reference, which are approved by the Committee and the Board. These were reviewed during the year, to ensure compliance with the Code, and are displayed on the Company's web site. Andrew Allner is available to shareholders to discuss remuneration policy.

General Policy

The Committee and the Board recognise that in order to attract, retain and motivate talented Senior Executives it is necessary to operate a competitive pay and benefits structure. The Committee seeks to ensure that Executives are provided with appropriate incentives to encourage enhanced performance. It aims to reward Executives fairly and responsibly for their contribution to the Company's performance but to avoid paying more than necessary to achieve this objective.

It has been the Committee's policy to set the remuneration package at median for median performance, and upper quartile for exceptional performance. The intention is to continue to follow this policy. 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 in the FTSE 250. During the year, the Committee has taken advice from Mercer Human Resource Consulting (Mercers) on executive pension arrangements. The Committee took advice from Mercers and Eversheds LLP on the Marshalls plc 2005 Long Term Incentive Plan (the LTIP) which was approved by shareholders at the AGM in May 2005. In each case the advisers were appointed by the Committee. During the year a separate, specialist team in Mercers have provided advice to the Company on pension issues.

The Committee does receive and consider general information on pay and employment conditions around the Group. In reviewing Executive Directors' salaries, consideration is given to the levels of increase granted to other employees within the Group. Basic salaries are generally reviewed annually or when a change of responsibility occurs.

Performance Related Pay

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

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

As a matter of policy Executive Directors are encouraged to hold shares in Marshalls plc. The target, which was set in 2004, is for the Chief Executive to hold shares equal in value to twice his salary and for the remaining Executive Directors to hold shares equal in value to their annual salary. Progress was made during the year towards those targets, as set out in the table below. The table also shows the value of annual bonus, 50 per cent of which must be invested in the Marshalls plc 2005 LTIP later this year. Each of the Executive Directors have indicated that they intended to invest voluntarily the full amount of their bonus into the LTIP this year.

Remuneration of Executive Directors

Basic Salary

The Committee seeks to pay salaries which take account of individual performance and are similar to those paid in comparable companies. Each year the Executive Directors, along with all employees, receive a cost of living increase. Further increases will be awarded on merit, increased responsibility or to take account of changes in comparable companies. 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.

Annual Performance Bonus

The principle behind the 2005 annual performance bonus was to align clearly shareholder interests with Executive Director remuneration and reward these Executives for creating shareholder value.

Executive Directors have a maximum bonus opportunity of 100 per cent of salary. The median and maximum bonus entitlements were set, following a review by Mercers in 2004, having considered the awards made in other FTSE 250 companies and to reflect the compulsory deferral of half of the bonus award under the LTIP.

The shareholdings of the Executive Directors together with details of their target shareholdings are set out in the table below :

	Number of shares held on 31 December 2004	**Percentage of target**	**Number of shares held on 31 December 2005**	**Percentage of target**	**2005 Bonus investment in LTIP £'000**
Ian Burrell	10,500	17.8	26,716	46.1	95
Graham Holden	169,942	88.2	214,106	95.4	184
David Sarti	3,482	6.7	16,429	33.1	81

Notes

(a) The share price on 31 December 2004 was 297 pence and on 31 December 2005 was 312 pence.

(b) The share price on 10 March 2006 was 322.5 pence.

(c) David Sarti joined the Board on 30 November 2004. The target calculation is based on his salary for 2005.

The annual bonus target for 2005 comprises 15 per cent for the achievement of a cash target and up to a maximum of 85 per cent for meeting a profit target based on the budget for the year. For the 2005 bonus, performance in line with budget would attract an award, based on the profit target, of 35 per cent with up to 85 per cent being awarded for exceptional performance above the budget.

The bonus scheme for 2006 is set on similar principles.

Under the rules of the LTIP half of any annual bonus award will, subject to a minimum threshold, be compulsorily invested for a period of three years. Details of this Long Term Incentive Plan are set out below.

Marshalls plc 2005 Long Term Incentive Plan (the LTIP)

Shareholders approved the LTIP at the Annual General Meeting in May 2005.

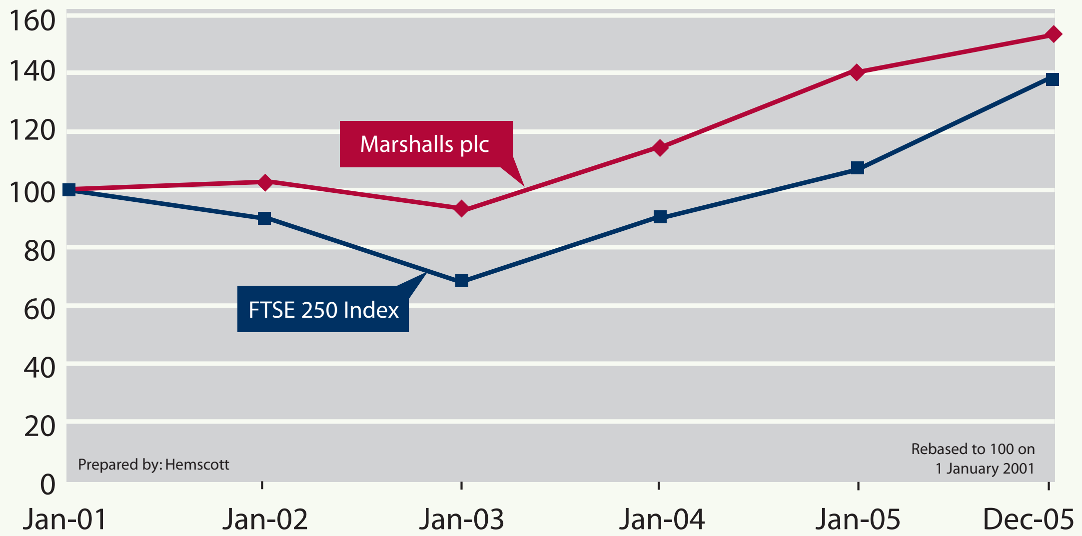
As explained above Executive Directors, subject to a minimum threshold, must invest 50 per cent of their annual bonus into the LTIP. They may elect to invest the full value of their annual bonus into the LTIP on a voluntary basis. For 2006, the Executive Directors have indicated that they will be applying 100 per cent of their 2005 annual bonus to the LTIP.

The annual bonus investment will be used to purchase investment shares. There will be an opportunity for the Executive Directors to receive up to two times the number of investment shares, subject to the achievement of a three year earnings per share performance target. The share match will be dependent on an improvement in earnings per share measured using International Financial Reporting Standards of:-

RPI + 2 per cent per annum : 50 per cent match
RPI + 3 per cent per annum : 100 per cent match
RPI + 6 per cent per annum : 200 per cent match

Any shares awarded as a result of the share match will have to be held for a further two years. These shares will be purchased in the market.

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 2001 to 31 December 2005. TSR is defined as share price growth plus reinvested dividends. This provides a basis for comparison as a relevant equity index in which Marshalls plc is a constituent member. Marshalls has a TSR for the five year period of 53.0 per cent compared to a TSR provided by the FTSE 250 Index of 39.3 per cent. In the opinion of the Directors the FTSE 250 Index is considered the most appropriate index against which the TSR of the Group should be measured because it represents a wider index of investments against which the Company is competing.

Audited Information
Directors' Remuneration

	Salary/ fees	Performance related bonuses	Benefits	Total remuneration (excluding pensions) 2005	2004
	£'000	£'000	£'000	£'000	£'000
Chairman					
Mike Davies	125	-	-	125	31
Executive Directors					
Ian Burrell	181	95	16	292	249
Graham Holden	350	184	14	548	400
David Sarti	155	81	16	252	14
Non-Executive Directors					
Andrew Allner	40	-	-	40	75
Bill Husselby (appointed 7 March 2005)	25	-	-	25	-
Richard Scholes	40	-	-	40	103
Former Directors	-	-	-	-	256
	916	360	46	1,322	1,128

Notes to Directors' Remuneration

(a) The salaries, fees, performance related bonuses and benefits all relate to the year ended 31 December 2005.

(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) With effect from 1 January 2006 the salaries of the Executive Directors are as follows: Graham Holden £360,000, Ian Burrell £186,000 and David Sarti £170,000. The Non-Executive Directors receive a fixed fee of £30,000 with an additional fee of £10,000 for the Chairmanship of a Board Committee. The Chairman receives a fixed fee of £125,000. The fees for the Non-Executive Directors and the Chairman are subject to review in July 2006.

(e) The total amount paid to Directors during the year was £1,322,000 (2004: £1,128,000).

(d) During 2004, Christopher Burnett and John Marshall both resigned as Directors. Their fees for that year were £191,000 and £65,000 respectively.

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. If a contract is to be terminated, the Committee will determine such mitigation as it considers fair and reasonable in each circumstance and the compensation that may be paid. It will take into account the best practice provisions of the Combined Code on Corporate Governance and it will take legal advice on the Company's liability to pay compensation and the appropriate amount. The Committee does, periodically, consider what compensation commitments the Executive Directors' contracts would entail in the event of early termination.

The Company's practice is to appoint the Non-Executive Directors, including the Chairman, under letters of appointment. Their appointment is usually for three years. Andrew Allner and Richard Scholes will complete their first three year term this Summer and both have indicated that they are willing to serve for a second three year term.

Details of the Director's Service Contracts are as follows:

	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	3 years
Andrew Allner	July 2003	3 years
Bill Husselby	March 2005	3 years
Richard Scholes	July 2003	3 years

Pension Benefits (Defined Benefit Scheme)

Graham Holden is a member of the Group's Defined Benefit Scheme which provides him with a pension of up to two thirds of pensionable salary upon retirement at age 60, subject to his having completed at least twenty years' service with the Group. This Defined Benefit Scheme is now closed to new entrants, including Directors.

In addition, the Defined Benefit Scheme provides for a pension for dependents 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 Remuneration Committee have reviewed pension provision in response to the Pensions Act 2004 and Tax Simplification legislation.

	Age at 31 December 2005 (or date of retirement)	**Years of service**	**Accrued entitlement 31 December 2005** (see Note a) **£'000**	**Increase in accrued entitlement earned during the year** (see Note b) **£'000**	**Transfer value of pension increase earned in year** (see Note c) **£'000**
Graham Holden	46	19	134	32	311

Notes to Pension Entitlements

(a) The pension entitlement shown is that which would be preserved in the Defined Benefit Scheme if the member had left service on 31 December 2005.
(b) The increase in accrued entitlement during the year is net of any increase for revaluation in deferment.
(c) The transfer value has been calculated in accordance with Actuarial Guidance Note GN11 less Directors' contributions.
(d) No accrued lump sum is payable unless part of the accrued pension is commuted.

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 2005 **£'000**	**Transfer value as at 31 December 2004** **£'000**	**Increase in transfer value less member contribution over the year** (see Note a) **£'000**
Graham Holden	1,429	980	422

Notes to Pension Entitlements

(a) The increase in the transfer value less Directors' contributions is the increase in the transfer value of the accrued benefits during the year after deducting the Director's personal contribution to the Defined Benefit Scheme.

Pension Benefits (Defined Contribution Scheme)

Ian Burrell and David Sarti are members of the Group's Defined Contribution Scheme. The Company made a contribution of 30 per cent of their base salary in 2005 and they are required to make a minimum contribution of 4 and 3 per cent respectively of their base salary on an amount up to the level of the earnings cap. They are eligible for a lump sum payment and dependants pension benefits on death in service.

The Company made a pension contribution of £54,232 (2004: £52,500) in respect of Ian Burrell and £46,485 (2004: 390) in respect of David Sarti.

Directors' Interests, Share Options and Long Term Incentive Plan

Directors' Interests

The beneficial interests of the Directors and their immediate families in the shares of the Company, according to the Register of Directors' Interests required to be kept pursuant to section 325 of the Companies Act 1985, are set out below:

	1 January 2005		31 December 2005	
	Ordinary Shares	**Options Ordinary Shares**	**Ordinary Shares**	**Options Ordinary Shares**
Andrew Allner	3,600	-	5,000	-
Ian Burrell	10,500	-	26,716	-
Mike Davies	10,000	-	30,000	-
Graham Holden	169,942	7,336	214,106	-
Bill Husselby	-	-	5,000	-
David Sarti	3,482	-	16,429	-
Richard Scholes	-	-	-	-

Notes to Directors' Interests

(a) Bill Husselby was appointed on 7 March 2005 and held no shares at the date of his appointment.

(b) There were no changes to the above-mentioned interests between 1 January 2006 and 10 March 2006.

Share Options

	At 1 January 2005	**Options granted during the year**	**Options exercised during the year**	**Options lapsed during the year**	**As at 31 December 2005**	**Exercise price**	**Market price at date of exercise**	**Profit on exercise £**
Graham Holden								
SAYE	7,336	-	(7,336)	-	-	230.0p	310.5p	5,905

Notes to Share Options

(a) The market price of the Company's shares at 31 December 2005 was 312 pence and the range in the year was 275 pence to 334 pence.

(b) The total profit on exercise of share options during the year was £5,905 (2004: £190,155).

(c) Neither the Chairman nor the Non-Executive Directors held any share options during the year.

Long Term Incentive Plan 1998

On 22 April 2005 the following ordinary shares were called following the vesting of conditional awards under the Long Term Incentive Plan 1998:

	Cycle commencing	1 January 2005	Called	31 December 2005	Exercised	Share price at time of exercise
Graham Holden	2000	21,535	(21,535)	-	16 April 2005	301.0p

Note to the Long Term Incentive Plan 1998

(a) Sufficient shares were sold to pay the income tax and national insurance on exercise with the balance of shares being retained. The retained shares are included in the total shareholding for Graham Holden disclosed in the table of Directors' Interests above.

Following a comprehensive review of Executive remuneration during 2004, the Committee decided to terminate the Long Term Incentive Plan which was introduced in 1998. As set out in the Annual Report 2004 the outstanding awards for 2003 and 2004 were bought out on the basis of independently determined valuations. The net proceeds of the buy out, after income tax and national insurance, were used to purchase shares in the Company which will be held for periods of three to five years. These shares are included in the total shareholding for Ian Burrell, Graham Holden and David Sarti disclosed in the table of Directors' Interests on page 42.

	Gross buy out value £	Number of shares acquired at 283.5p per share
Ian Burrell	77,919	16,215
Graham Holden	116,015	24,144
David Sarti	47,798	9,947

Marshalls plc 2005 Long Term Incentive Plan (the LTIP)

No awards have been made under the LTIP. Awards can only be made for a limited period after the announcement of preliminary and interim results. It is the Committee's intention to make an Award to the Executive Directors following the announcement of the preliminary results for 2005. The usual RNS announcement will be made to the London Stock Exchange in due course.

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.

The Remuneration Report was approved by the Board.

Andrew Allner
Chairman of the Remuneration Committee
10 March 2006

Report of the Audit Committee

The Board has an established Audit Committee (the "Committee"). During the year the Committee members were the three Independent Non-Executive Directors being Richard Scholes who chairs the Committee, Andrew Allner and, with effect from 7 March 2005, Bill Husselby. The Board is satisfied that this Committee includes members that have recent and relevant financial experience required by the Code. Richard Scholes is a Chartered Accountant. Andrew Allner is also a Chartered Accountant and is the Group Finance Director of RHM plc.

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.

The 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 Committee. Where the Committee perceives that the independence of the external 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 2005 are analysed in Note 4 on page 59. The aggregate amount paid to other firms of accountants for non-audit services was £225,000 (2004: £536,000).

The Committee's work includes a review of the Interim and Annual Financial Statements and the Group's accounting policies. It recommends these statements and policies to the Board for approval. The Committee also monitors and reviews the effectiveness of internal control activities. 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.

The Committee reviewed the Internal Audit Programme and the results of all the assignments. These assignments form part of a much wider programme of independently audited aspects of the Group's operations.

During the year, the Committee reviewed the arrangements by which employees, and other people working for the Group, may in confidence raise concerns about possible improprieties in matters of financial reporting or other matters. The Group's Serious Concerns Policy is available to all employees and the Committee is satisfied that arrangements are in place for the proportionate and independent investigation of such matters and for appropriate follow-up action.

The Report of the Audit Committee has been approved by the Board.

Richard Scholes
Chairman of the Audit Committee
10 March 2006

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 2005 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 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 page 29.

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 whether, in addition, the Group Financial Statements have been properly prepared in accordance with Article 4 of the IAS Regulation. We also report to you if, in our opinion, the Directors' Report is not consistent with the Financial Statements, if 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 2003 FRC 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 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 2005 and of its profit 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 2005; and
- 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.

KPMG Audit Plc
Chartered Accountants and
Registered Auditor
1 The Embankment
Neville Street
Leeds LS1 4DW

10 March 2006

Consolidated Income Statement

for the year ended 31 December 2005

	Notes	2005 £'000	2004 £'000
Revenue	2	**359,310**	328,343
Net operating costs	4	**(314,885)**	(281,370)
Operating profit	2	**44,425**	46,973
Financial expenses	6	**(14,421)**	(12,985)
Financial income	6	**8,014**	6,267
Profit before tax	2	**38,018**	40,255
Income tax expense	7	**(11,661)**	(12,230)
Profit after tax but before gain on sale and post tax profit of discontinued operation		**26,357**	28,025
Gain on sale and post tax profit of discontinued operation	3	**31,517**	3,278
Profit for the financial period	20	**57,874**	31,303
Earnings per share (total operations including gain on sale in 2005):			
Basic	9	**40.73p**	20.18p
Diluted	9	**40.71p**	20.15p
Earnings per share (continuing operations):			
Basic	9	**18.55p**	18.07p
Diluted	9	**18.54p**	18.04p
Dividend:			
Pence per share	8	**12.10p**	11.25p
Dividends declared	8	**17,169**	17,829

The notes on pages 49 to 84 form part of these Consolidated Financial Statements.

Consolidated Balance Sheet

at 31 December 2005

	Notes	2005 £'000	2004 £'000
Assets			
Non-current assets			
Property, plant and equipment	10	**198,030**	191,400
Intangible fixed assets	11	**46,461**	40,732
		244,491	232,132
Current assets			
Inventories	12	**67,759**	60,501
Trade and other receivables	13	**36,598**	35,090
Cash and cash equivalents	14	**5,210**	21
Assets classified as held for sale	3	**-**	36,301
		109,567	131,913
Total assets		**354,058**	364,045
Liabilities			
Current liabilities			
Bank overdraft	14	**-**	16,693
Trade and other payables	15	**64,570**	55,661
Current instalments of loans	16	**348**	229
Liabilities classified as held for sale	3	**-**	8,531
		64,918	81,114
Non-current liabilities			
Trade and other payables	15	**475**	2,200
Interest bearing loans and borrowings	16	**51,550**	91,341
Employee benefits	18	**65,264**	50,855
Deferred taxation	19	**5,511**	7,042
		122,800	151,438
Total liabilities		**187,718**	232,552
Net assets		**166,340**	131,493
Equity			
Capital and reserves attributable to equity holders			
Share capital	20	**35,772**	35,478
Share premium account	20	**2,694**	287
Own shares	20	**(102)**	(655)
Capital redemption reserve	20	**72,573**	71,237
Consolidation reserve	20	**(213,067)**	(213,067)
Hedging reserve	20	**(2)**	(6)
Retained earnings	20	**268,472**	238,219
Equity shareholders' funds		**166,340**	131,493

Approved at a Directors' meeting on 10 March 2006.
On behalf of the Board:

D.G. Holden
Chief Executive

I.D. Burrell
Finance Director

The notes on pages 49 to 84 form part of these Consolidated Financial Statements.

Consolidated Cash Flow Statement

for the year ended 31 December 2005

	Notes	2005 £'000	2004 £'000
Net cashflow from operating activities	21(i)	**42,750**	42,212
Net cashflow from investing activities	21(ii)	**35,668**	(42,111)
Net cashflow from financing activities	21(iii)	**(56,539)**	(24,654)
Net increase/(decrease) in cash and cash equivalents		**21,879**	(24,553)
Cash and cash equivalents at 1 January		**(16,669)**	7,884
Cash and cash equivalents at 31 December	14	**5,210**	(16,669)

The above includes the operating, investing and financing cashflows of the discontinued operation disclosed in Note 3. The relevant cash flows of the discontinued operation are included in Note 21.

Reconciliation of Net Cash Flow to Movement in Net Debt

	2005 £'000	2004 £'000
Net increase/(decrease) in cash and cash equivalents	**21,879**	(24,553)
Cash outflow/(inflow) from decrease/(increase) in debt and lease financing	**39,910**	(69,812)
Finance leases acquired on acquisition of subsidiary undertakings	**(238)**	(631)
Movement in net debt in the period	**61,551**	(94,996)
Net debt at 1 January	**(108,239)**	(13,243)
Net debt at 31 December	**(46,688)**	(108,239)

Consolidated Statement of Recognised Income and Expenses

	2005 £'000	2004 £'000
Cash flow hedges: Effective portion of changes in fair value	**4**	(6)
Actuarial losses (net of deferred taxation)	**(8,563)**	(694)
Net expense recognised directly in equity	**(8,559)**	(700)
Profit for the period	**57,874**	31,303
Total recognised income and expenses for the period (equity)	**49,315**	30,603

Notes to the Consolidated Financial Statements

1 Accounting policies

Significant accounting policies

Marshalls plc (the "Company") is a company domiciled in the United Kingdom. The Consolidated Financial Statements of the Company for the year ended 31 December 2005 comprise the Company and its subsidiaries (together referred to as the "Group").

The Consolidated Financial Statements were authorised for issue by the Directors on 10 March 2006.

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.

(a) Statement of compliance

The Group Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") as endorsed by the European Union. These are the Group's first consolidated financial statements and IFRS 1 has been applied.

(b) Basis of preparation

The Consolidated Financial Statements have been prepared on the basis of the requirements of IFRSs in issue and endorsed by the EU and effective (or available for early adoption) at 31 December 2005.

The Group has adopted IAS 32 and IAS 39 from 1 January 2004. The effect of this on the Consolidated Financial Statements is not material.

The Group has also adopted IFRS 5 from 1 January 2004. The effect of this has been the separate disclosure of the disposal of Marshalls Clay Products Limited as assets and liabilities held for sale.

Non-current assets and disposal groups held for sale are stated at the lower of carrying amount and fair value less costs to sell.

The Group has elected to use the following exemptions allowable by IFRS 1:

IFRS 3, *"Business Combinations"* – the Group has not applied this standard to business combinations that occurred before 1 January 2005; and

Revaluation as deemed cost – the Group has elected to use previous UK GAAP revaluations of property, plant and equipment at 1 January 2004 as deemed cost as it considers those valuations to be broadly comparable to fair value. This has had the effect of re-classifying the balance on the revaluation reserve of £5,166,000 at 1 January 2004 and 31 December 2004 to retained earnings.

An explanation of how the transition to IFRSs has affected the reported financial position, financial performance and cash flows of the Group is provided in Note 29. This note includes reconciliations of equity and profit for comparative periods reported under UK GAAP to those reported for those periods under IFRSs.

The IFRS accounting policies have been applied consistently to all periods presented in these Consolidated Financial Statements from the date of transition on 1 January 2004. They also have been applied in preparing an opening IFRS balance sheet at 1 January 2004 for the purposes of the transition to IFRSs, as required by IFRS 1. The impact of the transition from previous GAAP to IFRSs is explained in Note 29. The accounting policies have been applied consistently throughout the Group for the purposes of these Consolidated Financial Statements and are set out on the Company's website (www.marshalls.co.uk).

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

1 Accounting policies (continued)

(b) Basis of preparation (continued)

The preparation of financial statements in conformity with 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 IFRSs that have a significant effect on the Consolidated Financial Statements and estimates with a significant risk of material adjustment in the next year are discussed in Note 28.

The accounting policies set out below have been applied consistently to all periods presented in these Consolidated Financial Statements and in preparing an opening Consolidated IFRS balance sheet at 1 January 2004 for the purposes of the transition to IFRSs.

(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) Transactions eliminated on consolidation

Intragroup balances and any unrealised gains and losses or income and expenses arising from intragroup transactions, are eliminated in preparing the Consolidated Financial Statements.

(iii) Scheme of Arrangement

On 8 July 2004 the Company 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 has been accounted for as a capital reorganisation and accounting principles have been applied in 2004 as if the Company had always been the holding company of the Group.

(d) Foreign currency transactions

Transactions in foreign currencies are translated 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. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to sterling at foreign exchange rates ruling at the dates the fair value was determined.

1 **Accounting policies** (continued)

(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 trading purposes. However, derivatives that do not qualify for hedge accounting are accounted for as trading instruments.

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

(f) Hedging

(i) Cash flow hedges

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

When a hedging instrument expires or is sold, terminated or exercised, or the entity revokes designation of the hedge relationship but the hedged forecast transaction is still expected to occur, 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.

(ii) Hedge of monetary assets and liabilities

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 l). The cost of self-constructed assets includes the cost of materials, direct labour and an appropriate proportion of 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 IFRSs, are measured on the basis of deemed cost, being the revalued amount at the date of that revaluation.

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

(ii) Leased assets

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. The owner-occupied property acquired by way of finance lease is 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 l).

1 Accounting policies (continued)

(g) Property, plant and equipment (continued)

(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. 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

The residual values are reassessed annually. Assets under construction are not depreciated until they are ready for use.

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) Intangible assets

(i) Goodwill

All business combinations are accounted for by applying the purchase method. Goodwill represents a payment made by the acquiror 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 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 UK GAAP. The classification and accounting treatment of business combinations that occurred prior to 1 January 2004 have been reconsidered in preparing the Group's opening IFRS balance sheet at 1 January 2004 and no adjustments have been made.

Goodwill is 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 l).

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

(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 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 l).

1 Accounting policies (continued)

(h) Intangible assets (continued)

(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 l).

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, and intangible assets with an indefinite useful life, are 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	-	10 to 20 years
Patents and trademarks	-	10 to 20 years
Development costs	-	10 to 20 years

(i) Trade and other receivables

Trade and other receivables are stated at their cost less impairment losses (see accounting policy l).

(j) Inventories

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

The cost of other 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.

(k) Cash and cash equivalents

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

(l) (i) Impairment

The carrying amounts of the Group's assets, other than inventories (see accounting policy j) and deferred tax assets (see accounting policy v), 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 (group of units) and then, to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

1 Accounting policies (continued)

(l) (i) Impairment (continued)

Goodwill and indefinite-lived intangible assets were tested for impairment at 1 January 2004, the date of transition to IFRSs, even though no indication of impairment existed.

The recoverable amount of assets is the greater of their net selling price 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.

(m) 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 expressed on an accrual basis. Equity dividends are recognised as a liability in the period in which they are declared.

(n) 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.

(o) Defined benefit plans

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 method.

When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognised as an expense in the Consolidated Income Statement on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognised immediately in the Consolidated Income Statement.

(p) Employee benefits

Actuarial gains and losses that arise subsequent to 1 January 2004 in calculating the Group's obligation in respect of a plan are recognised immediately within the Consolidated Statement of Recognised Income and Expenses as allowed by the amendment to IAS 19.

1 Accounting policies (continued)

(q) Share-based payment transactions

The Group regularly 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.

In accordance with IFRS 2, *"Share-based Payments"*, the fair value of the employee services received in exchange for the grant of share awards is recognised as an expense. The total amount to be expensed on a straight-line basis over the vesting period is determined by reference to the fair value of the share awards determined at the grant date, excluding the impact of the earnings per share performance conditions. The impact of the earnings per share performance conditions are included in assumptions about the proportion of shares that the employee will ultimately receive. The probability of vesting is revised at each balance sheet date and the difference is charged or credited to the Consolidated Income Statement, with a corresponding adjustment to equity. Fair value is measured using an appropriate valuation model.

(r) 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, 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, where appropriate, the risks specific to the liability.

(i) Restructuring

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.

(ii) Onerous contracts

A provision for onerous contracts is recognised when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligations under the contract.

(s) Trade and other payable

Trade and other payables are stated at cost.

(t) Revenue

Revenue from the sale of goods is recognised in the Consolidated Income Statement when the recognition conditions within IAS 14, *"Revenue"*, have been satisfied. 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, associated costs or the possible return of goods or continuing management involvement with the goods.

(u) 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 asset.

(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.

1 Accounting policies (continued)

(u) Expenses (continued)

(iii) Financial expenses

Net financial expenses comprise interest payable on borrowings 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).

(v) Income tax and deferred taxation

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 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 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.

(w) 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.

(x) Non-current assets held for sale and discontinued operations

Immediately before classification as held for sale, the measurement of the assets (and all assets and liabilities in a disposal group) is brought up-to-date in accordance with applicable IFRSs. Then, on initial classification as held for sale, non-current assets and disposal groups are recognised at the lower of carrying amount and fair value less costs to sell.

Impairment losses on initial classification as held for sale are included in the Consolidated Income Statement, even when there is a revaluation. The same applies to gains and losses on subsequent re-measurement.

A discontinued operation is a component of the Group's business that represents a separate major line of business or geographical area of operations or is a subsidiary acquired exclusively with a view to resale.

Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. A disposal group that is to be abandoned may also qualify.

2 Segmental analysis

	Revenue		Operating profit	
	2005	2004	**2005**	2004
	£'000	£'000	**£'000**	£'000
Continuing operations	**359,310**	328,343	**44,425**	46,973
Financial income and expenses (net)			**(6,407)**	(6,718)
Profit on ordinary activities before taxation			**38,018**	40,255

The Directors have undertaken a review of the Group's continuing operations and its associated business risks and consider that the continuing operations should be reported 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 and reported as a single business segment in line with the Group's internal reporting framework.

	2005	2004
	£'000	£'000
Geographical destination of revenue:		
United Kingdom	**356,051**	323,830
Rest of the world	**3,259**	4,513
	359,310	328,343

All revenue originates in the United Kingdom from continuing operations and there is no material inter-segmental turnover.

Segmental information for the discontinued operations is included in Note 3 on page 58.

3 Non current assets held for sale and discontinued operations

On 4 January 2005 Marshalls Clay Products Limited was sold to Hanson PLC for a cash consideration of £65 million (including the repayment of all intergroup indebtedness) and a pre-tax gain of £31.5 million was realised. The results of this former business have been disclosed under discontinued operations in the Consolidated Income Statement. Towards the end of December 2004 the transaction had become highly probable and consequently the assets and liabilities were classified as held for sale in the Consolidated Balance Sheet as at 31 December 2004.

The discontinued assets and liabilities of the Clay Products business as at 31 December 2004 were as follows:

	2004
	£'000
Assets	
Property, plant and equipment	27,008
Inventories	5,510
Trade and other receivables	3,780
Cash and cash equivalents	3
	36,301
Liabilities	
Trade and other payables	5,415
Deferred taxation	3,116
	8,531

3 Non current assets held for sale and discontinued operations (continued)

Gain on sale and post tax profit of discontinued operation:

	2005 £'000	2004 £'000
Revenue	-	33,966
Net operating costs	-	(28,521)
Operating profit	-	5,445
Gain on sale of discontinued operation	31,517	-
Financial expenses	-	(564)
Profit before tax	31,517	4,881
Income tax expense	-	(1,603)
Gain on sale and post tax profit of discontinued operation	31,517	3,278
Geographical destination of revenue:		
United Kingdom	-	33,102
Rest of the world	-	864
	-	33,966

The cash flow disclosures in respect of the above discontinued operations are shown in Note 21. There is no tax arising in the year in respect of the gain on sale of discontinued operations.

4 Net operating costs – continuing operations

	2005 £'000	2004 £'000
Raw materials and consumables	134,537	114,947
Changes in inventories of finished goods and work in progress	(6,480)	(7,139)
Personnel costs (Note 5)	82,850	78,072
Depreciation - owned	18,449	16,865
- leased	267	140
Own work capitalised	(2,382)	(3,092)
Other operating charges	86,633	82,147
Amortisation of intangible fixed assets (Note 11)	259	55
Works closure costs	3,008	-
Restructuring costs	391	1,011
Operating costs	317,532	283,006
Other operating income	(1,412)	(1,595)
Net profit on asset and property disposals	(1,235)	(41)
Net operating costs	314,885	281,370

4 Net operating costs – continuing operations (continued)

	2005	2004
	£'000	£'000
Net operating costs include:		
Auditors' remuneration	**114**	175
Other fees paid to the auditors and their associates	**7**	3
Leasing costs	**5,971**	5,883
Hire of plant and machinery	**2,932**	2,684

In respect of the year under review, KPMG Audit Plc carried out additional work in relation to corporate taxation and other corporate compliance procedures which amounted in aggregate to £7,000 (2004: £3,000).

5 Personnel costs

Personnel costs (including Directors):	**2005**	2004
	£'000	£'000
Wages and salaries	**71,792**	67,828
Social security costs	**7,429**	6,957
Contributions to defined contribution plans	**708**	264
Increase in liability for defined benefit plans	**2,921**	3,023
	82,850	78,072

Details of Directors' remuneration, share options, long term incentive plans and Directors' pension entitlements are disclosed in the Directors' Remuneration Report on pages 37 to 43.

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

	2005	2004
	Number	Number
Continuing operations	**2,884**	2,871
Discontinued operations	**-**	351
	2,884	3,222

6 Financial expenses and income

	2005 £'000	2004 £'000
(a) Financial expenses		
Interest expense on bank loans, overdrafts and loan notes	**2,487**	2,495
Interest on obligations under the defined benefit pension scheme	**9,505**	8,108
Debenture interest expense	**2,275**	2,275
B share dividend expense	**132**	92
Finance lease interest expense	**22**	15
	14,421	12,985
(b) Financial income		
Expected return on plan assets under the defined benefit pension scheme	**7,953**	6,162
Interest receivable and similar income	**61**	105
	8,014	6,267

7 Income tax expense

	2005 £'000	2004 £'000
Current tax expense		
Current year	**12,165**	12,682
Adjustments for prior year	**(274)**	(1,708)
	11,891	10,974
Deferred taxation expense		
Origination and reversal of temporary differences		
Current year	**371**	497
Adjustments for prior year	**(601)**	759
Total tax expense in the Consolidated Income Statement	**11,661**	12,230

Reconciliation of effective tax rate

	2005 %	2005 £'000	2004 %	2004 £'000
Profit before tax	**100.0**	**38,018**	100.0	40,255
Tax using domestic corporation tax rate	**30.0**	**11,405**	30.0	12,077
Disallowed amortisation of intangible fixed assets	**0.2**	**77**	-	17
Net items not taxable	**2.8**	**1,054**	2.7	1,085
Prior year items	**(2.3)**	**(875)**	(2.3)	(949)
	30.7	**11,661**	30.4	12,230

The net amount of deferred taxation credited to the Consolidated Statement of Recognised Income and Expenses in the year was £3,677,000 (2004: £300,000) (Note 19).

8 Dividends

Ordinary dividends: equity shares

	2005		2004	
	per share	**£'000**	per share	£'000
2004 Final: paid 8 July 2005	**8.00p**	**11,353**	7.35p	12,300
2005 Interim: paid 7 December 2005	**4.10p**	**5,816**	3.90p	5,529
	12.10p	**17,169**	11.25p	17,829

9 Earnings per share

Basic earnings per share on total operations of 40.73 (2004: 20.18) pence per share is calculated by dividing the profit attributable to ordinary shareholders from total operations of £57,874,000 (2004: £31,303,000) by the weighted average number of shares in issue during the year of 142,106,234 (2004: 155,107,622).

Basic earnings per share on continuing operations of 18.55 (2004: 18.07) pence per share is calculated by dividing the profit attributable to ordinary shareholders from continuing operations of £26,357,000 (2004: £28,025,000) by the weighted average number of shares in issue during the year of 142,106,234 (2004: 155,107,622).

Basic earnings per share on discontinued operations of 22.18 (2004: 2.11) pence per share is calculated by dividing the profit attributable to ordinary shareholders from discontinued operations of £31,517,000 (2004: £3,278,000) (see Note 3) by the weighted average number of shares in issue during the year of 142,106,234 (2004: 155,107,622).

Profit attributable to ordinary shareholders

	2005	2004
	£'000	£'000
Profit attributable to ordinary shareholders:		
- Continuing operations	**26,357**	28,025
- Discontinued operations	**31,517**	3,278
Total	**57,874**	31,303

Weighted average number of ordinary shares

	Note	2005	2004
Issued ordinary shares at 1 January	20	**141,913,313**	167,346,883
Effect of shares issued in the year		**192,921**	155,631
Effect of reduction of share capital and shares cancelled in the year		**-**	(12,394,892)
Weighted average number of ordinary shares at 31 December		**142,106,234**	155,107,622

Diluted earnings per share on total operations of 40.71 (2004: 20.15) pence per share is calculated by dividing the profit attributable to ordinary shares, and potentially dilutive ordinary shares, from total operations of £57,874,000 (2004: £31,303,000) by the weighted average number of shares in issue during the year of 142,106,234 (2004: 155,107,622) plus dilutive shares of 44,303 (2004: 241,303) which totals 142,150,537 (2004: 155,348,925).

9 Earnings per share (continued)

Diluted earnings per share on continuing operations of 18.54 (2004: 18.04) pence per share is calculated by dividing profit attributable to ordinary shares, and potentially ordinary dilutive shares, from continuing operations of £26,357,000 (2004: £28,025,000) by the weighted average number of shares in issue during the year of 142,106,234 (2004: 155,107,622), plus dilutive shares of 44,303 (2004: 241,303) which totals 142,150,537 (2004: 155,348,925).

Diluted earnings per share on discontinued operations of 22.17 (2004: 2.11) pence per share is calculated by dividing profit attributable to ordinary shares, and potentially ordinary dilutive shares, from discontinued operations of £31,517,000 (2004: £3,278,000) by the weighted average number of shares in issue during the year of 142,106,234 (2004: 155,107,622), plus dilutive shares of 44,303 (2004: 241,303) which totals 142,150,537 (2004: 155,348,925).

Weighted average number of ordinary shares (diluted)

	2005	2004
Weighted average number of ordinary shares at 31 December	**142,106,234**	155,107,622
Effect of share options in issue	**44,303**	241,303
Weighted average number of ordinary shares at 31 December	**142,150,537**	155,348,925

10 Property, plant and equipment

Cost	Land and buildings £'000	Plant, machinery and vehicles £'000	Total £'000
At 1 January 2004	111,200	233,834	345,034
Reclassification	30	(30)	-
Acquisitions through business combinations	1,276	3,267	4,543
Other acquisitions	4,123	23,095	27,218
Disposals	(590)	(6,984)	(7,574)
Transfer to assets held for sale	(24,455)	(27,811)	(52,266)
At 31 December 2004	91,584	225,371	316,955
At 1 January 2005	**91,584**	**225,371**	**316,955**
Acquisitions through business combinations	**954**	**1,858**	**2,812**
Other acquisitions	**5,778**	**18,045**	**23,823**
Disposals	**(358)**	**(6,231)**	**(6,589)**
At 31 December 2005	**97,958**	**239,043**	**337,001**

10 Property, plant and equipment (continued)

Depreciation and impairment losses	Land and buildings £'000	Plant, machinery and vehicles £'000	Total £'000
At 1 January 2004	22,954	115,430	138,384
Depreciation charge for the year	2,873	16,178	19,051
Disposals	(343)	(6,279)	(6,622)
Transfer to assets held for sale	(6,494)	(18,764)	(25,258)
At 31 December 2004	18,990	106,565	125,555
At 1 January 2005	**18,990**	**106,565**	**125,555**
Depreciation charge for the year	**2,699**	**16,017**	**18,716**
Disposals	**(59)**	**(5,241)**	**(5,300)**
At 31 December 2005	**21,630**	**117,341**	**138,971**
Net Book Value			
At 1 January 2004	88,246	118,404	206,650
At 1 January 2005	72,594	118,806	191,400
At 31 December 2005	**76,328**	**121,702**	**198,030**

The carrying amount of tangible fixed assets includes £1,113,000 (2004: £823,000) in respect of assets held under finance leases.

Group cost of land and buildings and plant and machinery includes £1,591,000 (2004: £255,000) and £4,504,000 (2004: £7,464,000) respectively for assets in the course of construction.

11 Intangible fixed assets

	Goodwill	Customer relation-ships	Supplier relation-ships	Patents and trademarks	Development costs	Total
Cost	£'000	£'000	£'000	£'000	£'000	£'000
At 1 January 2004	23,725	-	-	-	-	23,725
Acquisition through business combinations (Note 22)	12,918	-	2,400	1,585	159	17,062
At 31 December 2004	36,643	-	2,400	1,585	159	40,787
At 1 January 2005	**36,643**	**-**	**2,400**	**1,585**	**159**	**40,787**
Acquisition through business combinations (Note 22)	**4,028**	**1,960**	**-**	**-**	**-**	**5,988**
At 31 December 2005	**40,671**	**1,960**	**2,400**	**1,585**	**159**	**46,775**
Amortisation and impairment losses						
At 1 January 2004	-	-	-	-	-	-
Amortisation for the year	-	-	37	13	5	55
At 31 December 2004	-	-	37	13	5	55
At 1 January 2005	**-**	**-**	**37**	**13**	**5**	**55**
Amortisation for the year	**-**	**30**	**189**	**32**	**8**	**259**
At 31 December 2005	**-**	**30**	**226**	**45**	**13**	**314**
Carrying amounts						
At 1 January 2004	23,725	-	-	-	-	23,725
At 1 January 2005	36,643	-	2,363	1,572	154	40,732
At 31 December 2005	**40,671**	**1,930**	**2,174**	**1,540**	**146**	**46,461**

Amortisation charge

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

	2005	2004
	£'000	£'000
Net operating costs (Note 4)	**259**	55

12 Inventories

	2005 £'000	2004 £'000
Raw materials and consumables	**10,716**	10,373
Finished goods and goods for resale	**57,043**	50,128
	67,759	60,501

13 Trade and other receivables

	2005 £'000	2004 £'000
Trade receivables	**33,378**	31,406
Other receivables	**127**	127
Prepayments and accrued income	**3,093**	3,557
	36,598	35,090

No debtors were due after more than one year.

14 Cash and cash equivalents

	2005 £'000	2004 £'000
Bank balances	**5,189**	-
Cash in hand: continuing	**21**	21
	5,210	21
Cash in hand: discontinued	**-**	3
Bank overdraft	**-**	(16,693)
Cash and cash equivalents in the Consolidated Cash Flow Statement	**5,210**	(16,669)

15 Trade and other payables

	2005 £'000	2004 £'000
Current liabilities		
Trade payables	**28,637**	29,555
Corporation tax	**8,937**	8,371
Taxation and social security	**6,362**	5,064
Other payables	**4,474**	4,266
Accruals	**16,160**	8,405
	64,570	55,661
Non current liabilities		
Other payables	**475**	2,200

16 Loans

	2005 £'000	2004 £'000
Current liabilities		
Finance lease liabilities	**348**	229
Non current liabilities		
Bank loans	**28,569**	66,850
11.375% debenture stock 1992/2014	**20,000**	20,000
B shares	**2,821**	4,157
Finance lease liabilities	**160**	334
	51,550	91,341

Debenture stock

The 11.375 per cent debenture stock 1992/2014 which is secured by a first floating charge on the assets of the 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.

Rights attaching to the B shares

(a) Income
Holders of B shares are entitled to a non-cumulative preferential dividend at a rate equal to the lower of:

i) 10 per cent per annum; and
ii) 75 per cent of LIBOR for six months deposits, as determined at 11.00am on the first business day of each calculation period.

These dividends are paid semi-annually in arrears on 30 June and 31 December.

(b) Capital
On a return of capital on a winding up (except on a redemption in accordance with the terms of issue) each holder of B shares is entitled to the sum of 45 pence in respect of each B share, together with a sum equal to the relevant proportion of the preferential dividend which would have been payable if the winding up had taken effect on the last day of the then calculation period.

Holders of B shares are able to make elections to have their B shares redeemed at 45 pence per B share semi-annually on 30 June and 31 December.

At any time after the anniversary of the Scheme Effective Date or, if earlier, when the number of B shares remaining in issue becomes less than 25 per cent of the total number of B shares issued, the Company may elect to redeem all of the B shares still in issue at their 45 pence nominal value.

(c) Attendance and voting at general meetings
The holders of the B shares shall not be entitled, in their capacity as holders of such shares, to receive notice of any general meeting of the Company or to attend, speak or vote at any such general meeting.

Bank loans
The bank loans are secured by intergroup guarantees with certain subsidiary undertakings.

16 Loans (continued)

Finance lease liabilities

	Minimum lease **2005** **£'000**	Interest **2005** **£'000**	Principal **2005** **£'000**	Minimum lease 2004 £'000	Interest 2004 £'000	Principal 2004 £'000
Less than one year	**375**	**27**	**348**	253	24	229
Between one and five years	**185**	**25**	**160**	375	41	334
	560	**52**	**508**	628	65	563

17 Financial instruments

The Group holds and uses financial instruments to finance its operations and to manage its interest rate, liquidity and currency risks. The Group primarily finances its operations using share capital, retained profits and borrowings. The Group has, or had, in issue the following non-equity funding instruments:

- Debenture stock at 11.375 per cent as detailed in Note 16
- B shares as detailed in Note 16

As directed by the Board the Group does not engage in trade or 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 2004.

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. An interest rate swap, denominated in sterling, has been entered into to achieve an appropriate mix of fixed and floating rate exposure within the Group's policy. This has the effect of fixing a 6 per cent cap and a 4.5 per cent floor in respect of a three year amortising profile of borrowings commencing at £75,000,000 on 2 August 2004. The fair value of the swap is adjusted against the hedging reserve at the balance sheet date.

Liquidity risk

Cash resources are largely and normally generated through operations. As explained in Note 3, cash proceeds of £65 million (including the repayment of all intergroup indebtedness) were received on 4 January 2005 on the disposal of the former Clay Products business. Short term flexibility is achieved by overdraft facilities.

17 Financial instruments (continued)

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. The Group does not require collateral in respect of financial assets.

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.

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 contacts 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 which hedge forecast transactions as cash flow hedges and states them at fair value. The fair value of forward exchange contracts at 1 January 2004 was adjusted against the opening balance of the hedging reserve at that date.

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.

17 Financial instruments (continued)

Effective interest rates and maturity of liabilities

At 31 December 2005 42.8 per cent (2004: 18.5 per cent) of the Group's borrowings were on a fixed rate. The interest rate profile of the financial liabilities were:

31 December 2005	Fixed or variable rate	Effective interest rate	Total	6 months or less	6-12 months	1-2 years	2-5 years	More than 5 years
		%	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Cash and cash equivalents	Variable	5.25	**(5,210)**	**(5,210)**	**-**	**-**	**-**	**-**
Bank loans	Variable	5.25	**28,569**	**-**	**-**	**-**	**28,569**	**-**
11.375% debenture stock 1992/2014	Fixed	11.375	**20,000**	**-**	**-**	**-**	**-**	**20,000**
B shares	Variable	3.57	**2,821**	**2,821**	**-**	**-**	**-**	**-**
Finance lease liabilities	Variable	10.20	**508**	**176**	**172**	**114**	**46**	**-**
			46,688	**(2,213)**	**172**	**114**	**28,615**	**20,000**

31 December 2004	Fixed or variable rate	Effective interest rate	Total	6 months or less	6-12 months	1-2 years	2-5 years	More than 5 years
		%	£'000	£'000	£'000	£'000	£'000	£'000
Cash and cash equivalents	Variable	5.40	16,669	16,669	-	-	-	-
Bank loans	Variable	5.25	66,850	-	-	-	66,850	-
11.375% debenture stock 1992/2014	Fixed	11.375	20,000	-	-	-	-	20,000
B shares	Variable	3.44	4,157	4,157	-	-	-	-
Finance lease liabilities	Variable	11.50	563	119	110	229	105	-
			108,239	20,945	110	229	66,955	20,000

Borrowing facilities

The total bank borrowing facilities at 31 December 2005 amounted to £130 million (2004: £130 million) of which £106.6 million (2004: £46.5 million) remained unutilised. The undrawn facilities available at 31 December 2005, in respect of which all conditions precedent had been met, were as follows:

	2005	2004
	£'000	£'000
Committed:		
- Expiring in more than two years but not more than five years	**21,431**	23,150
Uncommitted:		
- Expiring in one year or less	**85,210**	23,331
	106,641	46,481

17 Financial instruments (continued)

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 2005 are shown below:-

	2005		2004	
	Book amount	**Fair Value**	Book amount	Fair value
	£'000	**£'000**	£'000	£'000
Trade and other receivables	**36,598**	**36,598**	35,090	35,090
Cash and cash equivalents	**5,210**	**5,210**	(16,669)	(16,669)
Bank loans	**(28,569)**	**(28,569)**	(66,850)	(66,850)
11.375% debenture stock 1992/2014	**(20,000)**	**(29,936)**	(20,000)	(30,889)
B shares	**(2,821)**	**(2,821)**	(4,157)	(4,157)
Finance lease liabilities	**(508)**	**(508)**	(563)	(563)
Trade and other payables	**(65,045)**	**(65,045)**	(57,861)	(57,861)
Other assets/(liabilities) – net	**241,475**	**241,475**	262,503	262,503
	166,340	**156,404**	131,493	120,604

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 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 discounted expected future principal and interest cash flows.

(c) B shares

The fair value is based on market prices.

(d) 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.

(e) 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.

18 Employee benefits

Pension scheme

The Group operates the Marshalls plc Pension and Life Assurance 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.

	2005	2004
	£'000	£'000
Present value of funded obligations	**(212,245)**	(176,703)
Fair value of Scheme assets	**146,981**	125,848
Recognised liability for defined benefit obligations (see below)	**(65,264)**	(50,855)

Movements in the net liability for defined benefit obligations recognised in the balance sheet

	2005	2004
	£'000	£'000
Net liability for defined benefit obligations at 1 January	**(50,855)**	(45,775)
Contributions received	**1,695**	1,806
Expense recognised in the Consolidated Income Statement	**(3,862)**	(5,895)
Actuarial losses	**(12,242)**	(991)
Net liability for the defined benefit obligations at 31 December	**(65,264)**	(50,855)

Expense recognised in the Consolidated Income Statement

	2005	2004
	£'000	£'000
Current service costs	**(3,062)**	(3,750)
Interest on obligations	**(9,505)**	(8,813)
Expected return on Scheme assets	**7,953**	6,698
Past service cost	**-**	(30)
Curtailment gains: continuing operations	**141**	-
Curtailment gains: discontinued operations	**611**	-
	(3,862)	(5,895)

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

	2005	2004
	£'000	£'000
Net operating costs (personnel costs)	**(2,921)**	(3,023)
Financing expenses	**(9,505)**	(8,108)
Attributable to discontinued operation	**611**	(926)
	(11,815)	(12,057)
Expected return on Scheme assets (financial income)	**7,953**	6,162
	(3,862)	(5,895)

18 Employee benefits (continued)

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.

Liabilities for defined benefit obligations

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

			2005	2004
Discount rate (AA corporate bond rate)			**4.8%**	5.4%
Expected return on Scheme assets			**6.4%**	6.4%
Future salary increases			**3.6%**	3.6%
Future pension increases			**2.75%**	2.75%
Mortality assumptions	-	pre retirement	**A x 92**	A x 80
	-	post retirement	**P x A92 base (with a two year age deduction)**	P x A80C2010 (with a one year age deduction)

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

	2005 £'000	2004 £'000
Benefit obligation at 1 January	**176,703**	159,740
Current service cost	**3,062**	3,750
Interest cost	**9,505**	8,813
Scheme participants' contributions	**1,978**	2,122
NI rebates	**750**	880
Past service cost	**-**	30
Curtailment gain	**(752)**	-
Actuarial loss	**28,123**	7,137
Benefits paid	**(7,124)**	(5,769)
Benefit obligation at 31 December	**212,245**	176,703

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

	2005 £'000	2004 £'000
Fair value of Scheme assets at 1 January	**125,848**	113,965
Actual return on scheme assets	**23,834**	12,844
Employer contribution	**1,695**	1,806
Scheme participants' contributions	**1,978**	2,122
NI rebates	**750**	880
Benefits paid	**(7,124)**	(5,769)
Fair value of Scheme assets at 31 December	**146,981**	125,848

18 Employee benefits (continued)

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

	2005	2004
	£'000	£'000
Equity	**104,968**	88,009
Debt	**38,954**	36,577
Other	**3,059**	1,262
	146,981	125,848

Share-based payments

During the period ended 31 December 2005, the Company bought out all outstanding awards under the Long Term Incentive Plan 1988 at the following gross valuations:

	Gross buy out value	Number of shares acquired (at 283.5 pence per share)
Ian Burrell	£ 77,919	16,215
Graham Holden	£116,015	24,144
David Sarti	£ 47,798	9,947

The net proceeds of the buy out, after income tax and national insurance, were used to purchase shares in the Company which will be held for periods of three to five years. Further details are set out in the Directors' Remuneration Report on pages 37 to 43.

Savings-related share option scheme

Details of the options outstanding at 31 December 2005 are:

Number of options outstanding		Number of ordinary shares		Exercise price	Normally exercisable between
31 December 2005	31 December 2004	**31 December 2005**	31 December 2004		
10	540	**19,363**	1,361,379	230.0p	1 Dec 2005 – 31 May 2006

In accordance with the transitional arrangements under IFRS, no awards made under the Savings-Related Share Option Scheme have been included in the calculation of the Consolidated Income Statement charge under IFRS 2 as this scheme was established before 7 November 2002.

Employee profit sharing scheme

At 31 December 2005 the scheme held 42,584 (2004: 42,823) ordinary shares in the Company.

19 Deferred taxation

Recognised deferred taxation assets and liabilities

	Assets		Liabilities		Net	
	2005	2004	**2005**	2004	**2005**	2004
	£'000	£'000	**£'000**	£'000	**£'000**	£'000
Property, plant and equipment	**-**	-	**(19,683)**	(22,022)	**(19,683)**	(22,022)
Intangible assets	**-**	-	**(1,737)**	-	**(1,737)**	-
Inventories	**-**	-	**(685)**	(924)	**(685)**	(924)
Employee benefits	**19,579**	15,257	**-**	-	**19,579**	15,257
Other items	**111**	279	**(3,096)**	(2,748)	**(2,985)**	(2,469)
Tax assets/(liabilities)	**19,690**	15,536	**(25,201)**	(25,694)	**(5,511)**	(10,158)
Continuing operations	**19,690**	15,536	**(25,201)**	(22,578)	**(5,511)**	(7,042)
Discontinued operations	**-**	-	**-**	(3,116)	**-**	(3,116)
Tax assets/(liabilities)	**19,690**	15,536	**(25,201)**	(25,694)	**(5,511)**	(10,158)

The deferred taxation asset of £19,579,000 (2004: £15,257,000) in relation to employee benefits is in respect of the net liability for the defined benefit obligations of £65,264,000 (2004: £50,855,000) (Note 18) calculated at 30%.

Movement in temporary differences during the year

	1 January 2005	Recognised in income	Reclassification from creditors	Recognised on acquisition/ disposal of subsidiary undertaking	Recognised in equity	**31 December 2005**
	£'000	£'000	£'000	£'000	£'000	**£'000**
Property, plant and equipment	(22,022)	2,705	(90)	(276)	-	**(19,683)**
Intangible assets	-	77	-	(1,814)	-	**(1,737)**
Inventories	(924)	239	-	-	-	**(685)**
Employee benefits	15,257	839	-	(196)	3,679	**19,579**
Other items	(2,469)	(514)	-	-	(2)	**(2,985)**
	(10,158)	3,346	(90)	(2,286)	3,677	**(5,511)**
Continuing operations	(7,042)	230	(90)	(2,286)	3,677	**(5,511)**
Discontinued operations	(3,116)	3,116	-	-	-	**-**
	(10,158)	3,346	(90)	(2,286)	3,677	**(5,511)**

20 Capital and reserves

	Share Capital £'000	Share Premium Account £'000	Own Shares £'000	Capital Redemption Reserve £'000	Consolidation Reserve £'000	Hedging Reserve £'000	Retained Earnings £'000
At 1 January 2004	41,837	18,138	(1,047)	1,483	13,091	-	122,219
Shares issued prior to capital restructure	49	379	-	-	-	-	-
Shares vesting in LTIP	-	-	392	-	-	-	(392)
Capital restructure:							
- Cancellation of old shares	(41,886)	(18,517)	-	(1,483)	61,886	-	-
- Issue of new shares	212,650	-	-	-	(288,044)	-	-
	212,650	-	(655)	-	(213,067)	-	121,827
Reduction of capital	(177,208)	-	-	-	-	-	177,208
Redemption of B shares	-	-	-	71,237	-	-	(71,237)
Issue/redemption expenses	-	-	-	-	-	-	(2,500)
Shares issued after the capital restructure	36	287	-	-	-	-	-
Profit for the financial period	-	-	-	-	-	-	31,303
Dividends to shareholders	-	-	-	-	-	-	(17,829)
LTIP charges for the year	-	-	-	-	-	-	141
Actuarial loss on defined benefit pension scheme	-	-	-	-	-	-	(991)
Decrease in fair value of hedging derivatives	-	-	-	-	-	(9)	-
Deferred taxation arising	-	-	-	-	-	3	297
Total movements in year	(6,359)	(17,851)	392	69,754	(226,158)	(6)	116,000
At 31 December 2004	35,478	287	(655)	71,237	(213,067)	(6)	238,219
At 1 January 2005	35,478	287	(655)	71,237	(213,067)	(6)	238,219
Shares vesting in LTIP	-	-	553	-	-	-	(553)
Shares issued	294	2,407	-	-	-	-	-
Redemption of B shares	-	-	-	1,336	-	-	(1,336)
Profit for the financial period	-	-	-	-	-	-	57,874
Dividends to shareholders	-	-	-	-	-	-	(17,169)
Actuarial loss on defined benefit pension scheme	-	-	-	-	-	-	(12,242)
Increase in fair value of hedging derivatives	-	-	-	-	-	6	-
Deferred taxation arising	-	-	-	-	-	(2)	3,679
Total movements in year	294	2,407	553	1,336	-	4	30,253
At 31 December 2005	**35,772**	**2,694**	**(102)**	**72,573**	**(213,067)**	**(2)**	**268,472**

20 Capital and reserves (continued)

Share capital

	Authorised		Issued and paid up	
	2005	2004	**2005**	2004
	£'000	£'000	**£'000**	£'000
At 1 January	**75,000**	52,358	**35,478**	41,837
Issued prior to capital restructure	**-**	-	**-**	49
Capital restructure				
- cancellation of old shares	**-**	(52,358)	**-**	(41,886)
- issue of new shares	**-**	450,000	**-**	212,650
Reduction of capital	**-**	(375,000)	**-**	(177,208)
Issued after capital restructure	**-**	-	**294**	36
At 31 December	**75,000**	75,000	**35,772**	35,478
Number of ordinary shares	**300,000,000**	300,000,000	**143,087,712**	141,913,313

Share premium account

During the year ended 31 December 2005 1,174,399 ordinary shares were issued under the Savings-Related Share Option Scheme at an exercise price of 230 pence per share. An amount of £2,407,000 has been credited to the share premium account in relation to the issue of these shares.

Capital redemption reserve

On 30 June 2005 2,001,184 B shares were redeemed at 45 pence per share and an amount of £901,000 was paid to shareholders. As at 31 December 2005 further applications had been received, in accordance with the Articles of Association, in respect of 967,940 B shares and amounts totalling £435,000 were paid to shareholders in January 2006. As a consequence of these redemptions, an amount of £1,336,000 has been transferred to the capital redemption reserve from retained earnings.

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.

	2005	2004
	£'000	£'000
8.40 pence (2004: 8.00 pence) per ordinary share	**12,019**	11,353

21 Notes to the cash flow statement

	2005			2004		
	Continuing operations	**Discont-inued operations**	**Group**	Continuing operations	Discont-inued operations	Group
	£'000	**£'000**	**£'000**	£'000	£'000	£'000
21(i) Cashflows from operating activities						
Profit before tax	**38,018**	**-**	**38,018**	40,255	4,881	45,136
Adjustments for:						
Depreciation	**18,716**	**-**	**18,716**	17,005	2,046	19,051
Amortisation	**259**	**-**	**259**	55	-	55
Gain on sale of property, plant & equipment	**(1,545)**	**-**	**(1,545)**	(45)	4	(41)
Equity settled share based payment expenses	**-**	**-**	**-**	128	-	128
Loss in hedging instrument	**-**	**-**	**-**	330	-	330
Financial income and expenses (net)	**6,407**	**-**	**6,407**	6,718	564	7,282
Operating cashflow before changes in working capital and provisions	**61,855**	**-**	**61,855**	64,446	7,495	71,941
(Increase)/decrease in trade and other receivables	**(533)**	**-**	**(533)**	(2,157)	1,149	(1,008)
(Increase) in inventories	**(6,805)**	**-**	**(6,805)**	(8,041)	1,041	(7,000)
Increase/(decrease) in trade and other payables	**3,336**	**-**	**3,336**	(7,257)	1,477	(5,780)
Increase in employee benefits	**1,225**	**-**	**1,225**	1,784	544	2,328
Cash generated from the operations	**59,078**	**-**	**59,078**	48,775	11,706	60,481
Financial expenses paid	**(4,969)**	**-**	**(4,969)**	(2,576)	(2,013)	(4,589)
Non equity dividends paid	**(75)**	**-**	**(75)**	(90)	(2)	(92)
Income tax paid	**(11,284)**	**-**	**(11,284)**	(11,800)	(1,788)	(13,588)
Net cash flow from operating activities	**42,750**	**-**	**42,750**	34,309	7,903	42,212
21(ii) Cash flows from investing activities						
Proceeds from sale of property, plant and equipment (net of costs)	**3,172**	**-**	**3,172**	673	-	673
Financial income received	**61**	**-**	**61**	105	-	105
Disposal of subsidiary, net of cash disposed of	**-**	**65,000**	**65,000**	-	-	-
Acquisition of subsidiaries	**(9,406)**	**-**	**(9,406)**	(17,968)	-	(17,968)
Bank balance acquired with subsidiaries	**664**	**-**	**664**	2,297	-	2,297
Acquisition of property, plant & equipment	**(23,823)**	**-**	**(23,823)**	(28,083)	865	(27,218)
Net cash flow from investing activities	**(29,332)**	**65,000**	**35,668**	(42,976)	865	(42,111)
21(iii) Cash flows from financing activities						
Proceeds from issue of share capital	**2,701**	**-**	**2,701**	751	-	751
(Decrease)/increase in other debt and lease financing	**(293)**	**-**	**(293)**	66,779	-	66,779
Redemption of B shares	**(1,102)**	**-**	**(1,102)**	(71,036)	-	(71,036)
Repayment of borrowings	**(38,281)**	**-**	**(38,281)**	(1,124)	-	(1,124)
Payment of transaction costs	**(118)**	**(2,277)**	**(2,395)**	(2,195)	-	(2,195)
Equity dividends paid	**(17,169)**	**-**	**(17,169)**	(17,829)	-	(17,829)
Net cash flow from financing activities	**(54,262)**	**(2,277)**	**(56,539)**	(24,654)	-	(24,654)

22 Acquisitions of subsidiaries

Year ended 31 December 2005

On 2 September 2005 the Group acquired the entire issued share capital of Paver Systems (Carluke) Limited which is based in Lanarkshire, Scotland. The company is a manufacturer of concrete block paving.

	Recognised values £'000	Fair value adjustments £'000	Carrying amount £'000
Property, plant and equipment (Note 10)	2,812	-	2,812
Intangible assets (Note 11)	-	1,960	1,960
Inventories	453	-	453
Trade and other receivables	973	-	973
Cash and cash equivalents	664	-	664
Trade and other payables	(942)	-	(942)
Finance leases	(238)	-	(238)
Corporation tax	(223)	-	(223)
Deferred taxation	(276)	(588)	(864)
Net identifiable assets and liabilities	3,223	1,372	4,595
Goodwill on acquisition			4,696
Satisfied by:			
Cash consideration			8,716
Deferred consideration			375
Professional fees paid			187
Professional fees accrued			13
			9,291

Other than the recognition of "Customer Relationships" as an Intangible Asset (and the associated deferred taxation) no material fair value adjustments were required in respect of the assets acquired. The results of the business 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 the acquisition of Paver Systems been at the beginning of the period have not been disclosed. These are not considered material. With effect from 31 December 2005 the trade and net assets of the business have been transferred to the Group's main operating subsidiary, Marshalls Mono Limited.

Analysis of movements in goodwill:

	£'000
Acquisition of Paver Systems (see above)	4,696
Adjustments to carrying amounts in relation to acquisitions made in the prior year	(668)
Additions to goodwill (Note 11)	4,028

The adjustments to the carrying amounts in relation to acquisitions made in the prior year relate mainly to a re-assessment of the fair value adjustments arising in respect of deferred taxation and a re-assessment of deferred consideration.

22 Acquisitions of subsidiaries (continued)

Analysis of net cash outflow:	£'000
Acquisition of Paver Systems (see above)	8,903
Net consideration adjustments paid in relation to acquisitions made in the prior year (including payment of professional fees previously accrued)	503
Net cash outflow (Note 21)	9,406

Year ended 31 December 2004

On 30 January 2004 the Group acquired The Great British Bollard Company Limited, a manufacturer of street bollards. On 14 May 2004 the Group acquired Woodhouse Group Limited which is a supplier of high quality, innovative street furniture and lighting. On 2 July 2004, the Group acquired Rockrite Limited and its subsidiary company, Premier Mortars Limited. The business is a supplier of ready to use mortar to the construction industry in the North West of England. With effect from their date of acquisition, the trade and net assets of all of these businesses have been transferred to the Group's main operating subsidiary, Marshalls Mono Limited.

On 13 December 2004 the Group acquired Compton Group Limited. The business is the UK's leading manufacturer of concrete garages, workshops and sectional commercial buildings and also produces "Alton" cedar timber greenhouses and summerhouses and "Robinson's" aluminium greenhouses. With effect from 31 December 2005, the trade and net assets of the business have been transferred to Marshalls Mono Limited.

	Recognised values £'000	Fair value adjustments £'000	Carrying amount £'000
Property, plant and equipment (Note 10)	4,543	-	4,543
Intangible assets	-	4,144	4,144
Inventories	2,267	-	2,267
Trade and other receivables	5,175	-	5,175
Cash and cash equivalents (net of bank overdrafts)	2,297	-	2,297
Trade and other payables	(8,992)	-	(8,992)
Finance leases	(631)	-	(631)
Corporation tax	(702)	-	(702)
Deferred taxation	(109)	-	(109)
Net identified assets and liabilities	3,848	4,144	7,992
Goodwill on acquisition (Note 11)			12,918
Satisfied by:			
Cash consideration			17,260
Deferred consideration			2,600
Professional fees paid			708
Professional fees accrued			342
			20,910

Other than the recognition of intangible assets no material fair value adjustments were required in respect of the assets acquired. 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.

23 Operating leases

	2005 £'000	2004 £'000
At 31 December 2005 the Group had commitments under non-cancellable operating leases in respect of property, plant and equipment as follows:		
Expiring:		
within one year	**643**	695
between two and five years	**16,115**	17,133
in more than five years	**17,282**	19,509
	34,040	37,337

Certain leased properties have been sublet by the Group. In each case the sublease expires in 2009. Sublease payments of £75,000 (2004 : £75,000) are expected to be received during the following financial year. An amount of £75,000 (2004: £47,000) was recognised as income in the Consolidated Income Statement, within net operating costs, in respect of subleases.

24 Capital commitments

	2005 £'000	2004 £'000
Capital expenditure that has been contracted for but for which no provision has been made in the Consolidated Financial Statements	**4,196**	3,072

25 Contingencies

Royal Bank of Scotland plc has issued, on behalf of Marshalls Group plc, irrevocable letters of credit for £1,075,000, £1,400,000 and £1,400,000 in respect of the Group's employers liability insurance cover with XL Winterthur and, on behalf of Marshalls plc, irrevocable letters of credit of £900,000 and £600,000 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 12 months ended 21 October 2002 and the periods ended 31 October 2003, 31 October 2004, 31 October 2005 and 31 October 2006 respectively.

26 Related parties

Identity of related parties

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

Transactions with key management personnel

Directors of the Company and their immediate relatives control 0.21 per cent of the voting shares of the Company.

In addition to their salaries, the Group also provides non-cash benefits to Directors and Executive Officers, and contributes to either a post-employment defined benefit plan or defined contribution plan on their behalf.

27 Post Balance Sheet Events

There are no significant adjusting or disclosable post balance sheet events.

28 Accounting estimates and judgements

Management discussed with the Audit Committee the development, selection and disclosure of the Group's critical accounting policies and estimates and the application of these policies and estimates. The accounting policies are set out in Note 1 on pages 49 to 56. 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 have been made to support their carrying amounts. Note 17 contains information about the assumptions and the risk factors relating to interest rate and foreign currency exposures. Note 18 contains information about the principal actuarial assumptions used in the determination of the net liability for defined benefit pension obligations.

29 Explanation of transition to IFRSs

As stated in Note 1(a), these are the Group's first Consolidated Financial Statements prepared in accordance with IFRSs.

The accounting policies set out in Note 1 have been applied in preparing the comparative information for the Consolidated Financial Statements being the financial information for the year ended 31 December 2004 and in the preparation of an opening IFRS balance sheet at 1 January 2004 (the Group's date of transition). The effect of the transition to IFRS is shown for comparative purposes only.

In preparing its opening IFRS balance sheet, the Group has adjusted amounts reported previously in Financial Statements prepared in accordance with UK GAAP. An explanation of how the transition from UK GAAP to IFRSs has affected the Group's financial position and financial performance is set out in the following tables and the notes that accompany the tables.

29 Explanation of transition to IFRSs (continued)

Reconciliation of equity at 1 January 2004		1 January 2004	
	UK GAAP	Effect of transition to IFRSs	IFRSs
	£'000	£'000	£'000
Assets			
Non-current assets			
Property, plant and equipment	206,650	-	206,650
Intangible fixed assets	23,725	-	23,725
	230,375	-	230,375
Current assets			
Inventories	56,744	-	56,744
Trade and other receivables	33,412	-	33,412
Cash and cash equivalents	7,884	-	7,884
	98,040	-	98,040
Total assets	328,415	-	328,415
Liabilities			
Current liabilities			
Trade and other payables	68,992	(11,380)	57,612
	68,992	(11,380)	57,612
Non-current liabilities			
Interest bearing loans and borrowings	20,000	-	20,000
Employee benefits	-	45,775	45,775
Deferred taxation	21,275	(11,968)	9,307
	41,275	33,807	75,082
Total liabilities	110,267	22,427	132,694
Net assets	218,148	(22,427)	195,721
Equity			
Capital and reserves attributable to equity holders			
Share capital	41,837	-	41,837
Share premium account	18,138	-	18,138
Own shares	-	(1,047)	(1,047)
Revaluation reserve	5,166	(5,166)	-
Capital redemption reserve	1,483	-	1,483
Consolidation reserve	13,091	-	13,091
Retained earnings	138,433	(16,214)	122,219
Equity shareholders' funds	218,148	(22,427)	195,721

29 Explanation of transition to IFRSs (continued)

Reconciliation of equity at 31 December 2004

	UK GAAP £'000	Effect of transition to IFRSs: Total operations £'000	Effect of transition to IFRSs: Discontinued operations £'000	IFRSs £'000
Assets				
Non-current assets				
Property, plant and equipment	218,408	-	(27,008)	191,400
Intangible fixed assets	39,063	1,669	-	40,732
	257,471	1,669	(27,008)	232,132
Current assets				
Inventories	66,011	-	(5,510)	60,501
Trade and other receivables	39,915	(1,045)	(3,780)	35,090
Cash and cash equivalents	24	-	(3)	21
Assets classified as held for sale	-	-	36,301	36,301
	105,950	(1,045)	27,008	131,913
Total assets	363,421	624	-	364,045
Liabilities				
Current liabilities				
Bank overdraft	16,693	-	-	16,693
Trade and other payables	71,931	(10,855)	(5,415)	55,661
Current instalments of loans	229	-	-	229
Liabilities classified as held for sale	-	-	8,531	8,531
	88,853	(10,855)	3,116	81,114
Non-current liabilities				
Trade and other payables	2,200	-	-	2,200
Interest bearing loans and borrowings	87,184	4,157	-	91,341
Employee benefits	-	50,855	-	50,855
Deferred taxation	23,695	(13,537)	(3,116)	7,042
	113,079	41,475	(3,116)	151,438
Total liabilities	201,932	30,620	-	232,552
Net assets	161,489	(29,996)	-	131,493
Equity				
Capital and reserves attributable to equity holders				
Share capital	39,635	(4,157)	-	35,478
Share premium account	287	-	-	287
Own shares	-	(655)	-	(655)
Revaluation reserve	5,166	(5,166)	-	-
Capital redemption reserve	71,237	-	-	71,237
Consolidation reserve	(213,067)	-	-	(213,067)
Hedging reserve	-	(6)	-	(6)
Retained earnings	258,231	(20,012)	-	238,219
Equity shareholders' funds	161,489	(29,996)	-	131,493

29 Explanation of transition to IFRSs (continued)

Notes on reconciliation of equity

The most significant adjustment relates to employee benefits. Pension liabilities of £45,775,000 at 1 January 2004 and £50,855,000 at 31 December 2004, together with the associated deferred taxation adjustments, have been recognised upon adoption of IAS 19, *"Employee Benefits (Revised)"*. These liabilities were not previously recognised under UK GAAP. Other adjustments include the de-recognition of dividends not declared at the year end which were previously accrued under UK GAAP and, as at 31 December 2004, the disclosure of assets and liabilities of the Clay Products business classified and measured as held for sale.

Reconciliation of profit or loss for the year ended 31 December 2004

	UK GAAP £'000	Total effect of transition to IFRSs £'000	**Restated IFRS (Total) £'000**	IFRSs Discontinued operations £'000	**IFRSs Continuing operations £'000**
Revenue	**362,309**	-	**362,309**	(33,966)	**328,343**
Net operating costs	**(308,774)**	(1,117)	**(309,891)**	28,521	**(281,370)**
Operating profit	**53,535**	(1,117)	**52,418**	(5,445)	**46,973**
Financial income and expenses (net)	**(5,132)**	(2,150)	**(7,282)**	564	**(6,718)**
Profit before tax	**48,403**	(3,267)	**45,136**	(4,881)	**40,255**
Income tax expense	**(15,102)**	1,269	**(13,833)**	1,603	**(12,230)**
Net profit	**33,301**	(1,998)	**31,303**	(3,278)	**28,025**

Notes on reconciliation of profit

The most significant adjustments are in relation to the recognition of pension costs disclosed in accordance with IAS 19, *"Employee Benefits (Revised)"* and the reversal of the goodwill amortisation charge that was previously made under UK GAAP.

In addition, the results of the Clay Products business, which was sold on 4 January 2005, have been disclosed under discontinued operations.

Company Balance Sheet

at 31 December 2005

	Notes	2005 £'000	2004 £'000 (As restated)
Fixed assets			
Investments	34	**288,340**	288,340
Current assets			
Debtors	35	**1,030**	508
Cash at bank and in hand		**600**	338
		1,630	846
Creditors: Amounts falling due within one year	36	**(80,478)**	(81,355)
Net current liabilities		**(78,848)**	(80,509)
Total assets less current liabilities		**209,492**	207,831
Creditors: Amounts falling due after more than one year	37	**(2,821)**	(4,157)
Net assets		**206,671**	203,674
Capital and reserves			
Called up share capital	39	**35,772**	35,478
Share premium account	40	**2,694**	287
Own shares	40	**(102)**	(655)
Capital redemption reserve	40	**72,573**	71,237
Profit and loss account	40	**95,734**	97,327
Equity shareholders' funds		**206,671**	203,674

Approved at a Directors' meeting on 10 March 2006.
On behalf of the Board:

D.G. Holden
Chief Executive

I.D. Burrell
Finance Director

The notes on pages 86 to 90 form part of these Company Financial Statements.
The comparatives have been restated for the effect of the adoption of the new Reporting Standards as set out in Note 30.

Company Reconciliation of Movements in Shareholders' Funds

for the year ended 31 December 2005

	2005 £'000	2004 £'000 (As restated)
Profit/(loss) for the financial year	**17,465**	(1,270)
Equity dividends	**(17,169)**	(5,529)
Retained profit/(loss) for the financial year	**296**	(6,799)
New share capital issued	**2,701**	212,973
Issue/redemption expenses	**-**	(2,500)
Net additions to shareholders' funds	**2,997**	203,674
Shareholders' funds at beginning of year (originally £216,475,000 restated for prior year adjustment of £12,801,000)	**203,674**	-
Shareholders' funds at end of year	**206,671**	203,674

The notes on pages 86 to 90 form part of these Company Financial Statements.
The comparatives have been restated for the effect of the adoption of new Reporting Standards as set out in Note 30.

Notes to the Company Financial Statements

30 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, except as noted below.

In these Financial Statements the following new standards have been adopted for the first time:

- FRS 20, *"Share-based payments"*;
- FRS 21, *"Events after the balance sheet date"*;
- the presentation requirements of FRS 25, *"Financial instruments: presentation and disclosure"*; and
- FRS 28, *"Corresponding amounts"*.

The recognition and measurement requirements of FRS 17, *"Retirement benefits"* have also been adopted. Previously the transitional disclosures of that standard have been followed.

The accounting policies under these new standards are set out below together with an indication of the effects of their adoption. FRS 28, *"Corresponding amounts"* has had no material effect as it imposes the same requirements for comparatives as hitherto required by the Companies Act 1985.

The corresponding amounts in these Company Financial Statements are restated in accordance with the new policies.

(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.

(a) Basis of preparation (continued)

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 46 to 84.

(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.

(c) Pension costs

(i) Defined benefit scheme

The Company participates in a Group wide pension scheme providing benefits based on final pensionable pay. The assets of the Scheme are held separately from those of the Company. The Company is unable to identify its share of the Scheme assets and liabilities of the Scheme on a consistent and reasonable basis and therefore, as required by FRS 17, *"Retirement benefits"*, accounts for the Scheme as if it were a defined contribution Scheme. As a result, the amount charged to the profit and loss account represents the contributions payable to the Scheme in respect of the accounting period.

(ii) Defined contribution scheme

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

(d) 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 vaules, or traded in an active market. Liquid resources comprise term deposits of less than one year.

(e) 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 total capital payments to be made during the term of the lease. The total amount of the capital payments 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.

(f) 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.

31 Operating costs

The audit fee for the Company was £20,000 (2004: £20,000).

32 Employees

The only employees of the Company were the Directors.

Details of Directors' remuneration, share options, long term incentive plans and Directors' pension entitlements are disclosed in the Directors' Remuneration Report on pages 37 to 43.

33 Ordinary dividends: equity shares

	2005		2004	
	per share	**£'000**	per share	£'000 (As restated)
2004 Final: paid 8 July 2005	**8.00p**	**11,353**	-	-
2005 Interim: paid 7 December 2005	**4.10p**	**5,816**	3.90p	5,529
	12.10p	**17,169**	3.90p	5,529

On 8 July 2004 Marshalls plc ("the Company" and formerly Marshalls Group plc) became the new holding company of the Group by way of a Court approved Scheme of Arrangement under Section 425 of the Companies Act 1985. These dividends paid relate to the period since 8 July 2004 which was the date the Company became the effective holding company of the Group.

34 Investments

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

Under a Court approved Scheme of Arrangement under Section 425 of the Companies Act 1985, on 8 July 2004, the Company issued 141,766,577 new ordinary shares of 150 pence each, with an aggregate nominal value of £212,650,000 and 167,542,319 B shares of 45 pence each, with an aggregate nominal value of £75,394,000, in consideration for 100 per cent of the issued ordinary share capital of Marshalls Group plc. The aggregate nominal value of the shares issued by the Company was £288,044,000.

On 20 October 2004 Marshalls Group plc issued a further 135,000 shares to the Company for a value of £296,000. This additional investment arose in connection with the exercise of options previously granted in Marshalls Group plc.

The principal wholly owned subsidiary undertakings of Marshalls plc at 31 December 2005 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.
Stancliffe Stone Co. Limited *	Quarrying of stone and supply of walling, paving and masonry products.

* held by subsidiary undertaking

35 Debtors

	2005 £'000	2004 £'000 (As restated)
Corporation tax	**1,030**	508

No debtors were due after more than one year.

36 Creditors: Amounts falling due within one year

	2005 £'000	2004 £'000 (As restated)
Other creditors	**433**	230
Amounts owed to subsidiary undertakings	**80,045**	81,125
	80,478	81,355

37 Creditors: Amounts falling due after more than one year

	2005 £'000	2004 £'000 (As restated)
B shares	**2,821**	4,157

During the year 2,969,124 B shares were redeemed at 45 pence per share.

38 Deferred taxation

There is no deferred taxation in the Company.

39 Share capital

As at 31 December 2005, the authorised, issued and fully paid up share capital was as follows:-

	Authorised			
	2005 Number	**2005 Nominal Value £'000**	2004 Number	2004 Nominal Value £'000
Ordinary Shares	**300,000,000**	**75,000**	300,000,000	75,000

	Issued and paid up			
	2005 Number	**2005 Nominal Value £'000**	2004 Number	2004 Nominal Value £'000
Ordinary Shares	**143,087,712**	**35,772**	141,913,313	35,478

40 Share capital and reserves

	Ordinary share capital £'000	Share premium account £'000	Own shares £'000	Capital redemption reserve £'000	Profit and loss account £'000
At 1 January 2005	35,478	287	-	71,237	105,316
Prior year adjustment	-	-	(655)	-	(7,989)
At 1 January 2005 (As restated)	35,478	287	(655)	71,237	97,327
Shares vesting in LTIP	-	-	553	-	(553)
Shares issued	294	2,407	-	-	-
Redemption of B shares	-	-	-	1,336	(1,336)
Profit for the financial year	-	-	-	-	296
At 31 December 2005	**35,772**	**2,694**	**(102)**	**72,573**	**95,734**

The prior year adjustment reflects the adoption of the new Reporting Standards as set out in Note 30. The impact of the prior year adjustment is to reduce the profit and loss account by £7,989,000 and shareholders' funds at 1 January 2005 by £12,801,000.

41 Capital and leasing commitments

The Company had no capital or leasing commitments at 31 December 2005 or 31 December 2004.

42 Contingent liabilities

Royal Bank of Scotland plc has issued, on behalf of Marshalls plc, irrevocable letters of credit of £900,000 and £600,000 in respect of the Group's employers liability insurance cover with Mistui Sumitomo Insurance (London Management) Limited. These sums relate to the Group's cap on self insurance in relation to the 12 months ended 31 October 2004 and 31 October 2005 respectively.

The Company has not adopted amendments to IAS 39 or IFRS 4 in relation to financial guarantee contracts which will apply for periods commencing on or after 1 January 2006. 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. The Company does not expect the amendments to have any impact on the Financial Statements for the period commencing 1 January 2006.

43 Pension scheme

The Company is a member of the Marshalls plc Pension and Life Assurance Scheme (the "Scheme") which has both a defined benefit and a defined contribution section. The assets of the Scheme are held in separately managed funds which are independent of the Group's finances.

Full details of the Scheme are provided in Note 18. It is not practical for the Company 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 full actuarial valuation was carried out as at 6 April 2003 and was updated for FRS 17 purposes to 31 December 2005 by a qualified independent Actuary. Certain employees are members of a company defined contribution scheme which invests funds in which the contributions for each individual member are separately identifiable and the benefits calculated accordingly.

Shareholder Information

Shareholder analysis at 31 December 2005

Size of Shareholding	*Number of Shareholders*	*%*	*Number of Ordinary Shares*	*%*
1 to 500	2,216	37.9	342,768	0.2
501 to 1,000	752	12.9	565,478	0.4
1,001 to 2,500	1,185	20.3	1,991,889	1.4
2,501 to 5,000	762	13.0	2,671,808	1.9
5,001 to 10,000	402	6.9	2,870,195	2.0
10,001 to 25,000	194	3.3	3,005,345	2.1
25,001 to 100,000	169	2.9	8,368,876	5.8
100,001 to 250,000	56	1.0	8,998,126	6.3
250,001 to 500,000	40	0.7	15,016,607	10.5
500,001 and above	66	1.1	99,256,620	69.4
	5,842	100.0	143,087,712	100.0

Base cost of Marshalls plc shares following the Scheme of Arrangement

For the purposes of UK taxation of chargeable gains, the base cost of Marshalls plc ordinary shares and B Shares can be calculated by apportioning the base cost of the shares of the former Marshalls plc shares between the Marshalls plc ordinary shares and the B Shares by reference to the market value of the Marshalls plc ordinary shares on the first day of dealings on 8 July 2004 which was 273.125p (the "quarter up value") and the nominal value of the B Shares which is 45 pence.

Financial calendar

Preliminary Announcement of results for the year ended 31 December 2005	Announced	10 March 2006
Annual General Meeting		24 May 2006
Final dividend for the year ended 31 December 2005	Payable	7 July 2006
Interim results for the year ending 31 December 2006	Announcement	8 September 2006
Interim dividend for the year ending 31 December 2006	Payable	8 December 2006
Results for the year ending 31 December 2006	Announcement	Early March 2007

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.

Financial History – Consolidated Group

Consolidated Income Statement	Year to December 2001 £'000	Year to December 2002 £'000	Year to December 2003 £'000	Year to December 2004 £'000	**Year to December 2005 £'000**
Revenue	278,270	293,834	317,351	328,343	**359,310**
Net operating costs	(238,692)	(249,106)	(268,546)	(281,370)	**(311,877)**
Operating profit before works closure costs	39,578	44,728	48,805	46,973	**47,433**
Works closure costs	-	-	-	-	**(3,008)**
Operating profit	39,578	44,728	48,805	46,973	**44,425**
Financial income and expenses (net)	(3,327)	(3,653)	(4,613)	(6,718)	**(6,407)**
Profit before tax	36,251	41,075	44,192	40,255	**38,018**
Income tax expense	(11,810)	(13,616)	(13,626)	(12,230)	**(11,661)**
Profit after tax but before gain on sale and post tax profit of discontinued operation	24,441	27,459	30,566	28,025	**26,357**
Gain on sale and post tax profit of discontinued operations	3,831	7,247	2,091	3,278	**31,517**
Profit for the financial period	28,272	34,706	32,657	31,303	**57,874**
Financial Information					
Earnings per share (pence)					
Basic: (continuing operations)	14.65	16.43	18.29	18.07	**18.55**
Basic: (total operations)	16.95	20.77	19.54	20.18	**40.73**
Dividends per share (pence)	9.15	9.65	10.35	11.25	**12.10**
Dividend cover (times)	1.60	1.70	1.77	1.61	**1.53**
Year end share price (pence)	239.5	216.0	251.0	297.0	**312.0**
Tax rate (%)	32.6	33.1	30.8	30.4	**30.7**
EBITA (before works closure costs)	39,578	44,728	48,805	47,028	**47,692**
EBITDA (before works closure costs)	52,121	58,376	64,407	64,033	**66,408**

Consolidated Balance Sheet	2001 £'000	2002 £'000	2003 £'000	2004 £'000	**2005 £'000**
Non-current assets	192,242	210,002	230,375	232,132	**244,491**
Current assets	100,559	101,282	98,040	131,913	**109,567**
Total assets	292,801	311,284	328,415	364,045	**354,058**
Current liabilities	(56,057)	(57,096)	(57,612)	(81,114)	**(64,918)**
Non-current liabilities	(52,855)	(73,994)	(75,082)	(151,438)	**(122,800)**
Net assets	183,889	180,194	195,721	131,493	**166,340**
Net borrowings	(14,099)	(18,117)	(13,243)	(108,239)	**(46,688)**
Gearing ratio	(7.7%)	(10.1%)	(6.8%)	(82.3%)	**(28.1%)**

In respect of the graphs on pages 12 and 13 which disclose a five year performance record for certain information, the additional disclosures for 2001, 2002 and 2003 have been prepared on the basis of the historic UK GAAP figures adjusted for the following:

- exclusion of the activities of the Clay Products business, which was disposed of on 4 January 2005;
- elimination of goodwill amortisation previously charged under UK GAAP;
- inclusion of accounting entries in relation to employee benefits in accordance with previously disclosed information required under UK GAAP by FRS 17; and
- adjustment to the timing of dividend provisions.

In relation to the limited graphical disclosures for 2001, 2002 and 2003 these are the only adjustments that have been made to past disclosures made under UK GAAP. In terms of the transitional adjustments required for conversion to IFRS, these are the only material adjustments considered by the Directors to be necessary to produce a five year record that discloses the results of continuing operations on a consistent, like for like, basis.