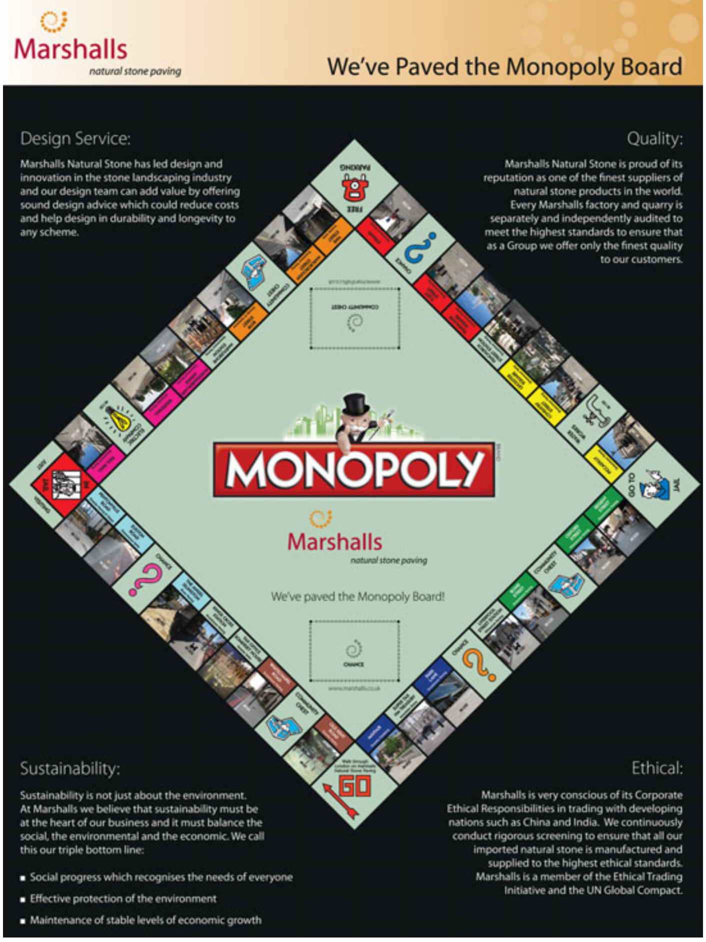



ANNUAL REPORT 2010

Marshalls

Moselden Yorkstone, Whitehall, London



Financial Highlights

Reported results:

• Revenue	£323.1m
• EBITDA	£31.1m
• Operating profit	£11.8m
• Profit before tax	£9.2m
• Basic EPS	3.76p
• Dividends declared and paid	5.25p
• Final dividend recommended	3.50p
• Net debt	£66.8m

Corporate Objectives

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

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

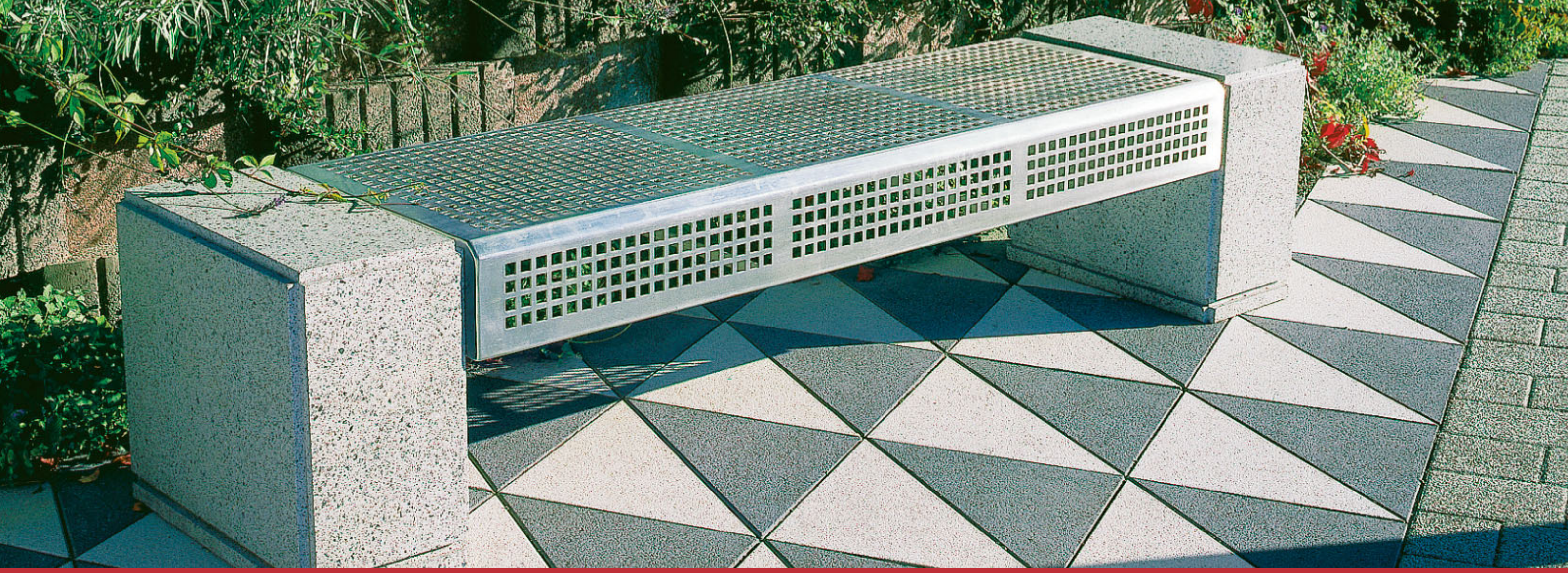
Marshalls is committed to maintaining and developing its market leading position. At the same time the Group is committed to conducting business in a manner which achieves sustainable growth whilst incorporating and demonstrating a high degree of social responsibility.

Marshalls aims to deliver superior rates of return to its shareholders and provide opportunities and reward for its employees.

Eclipse Granite Paving, Dark

Cautionary Statement

Please read the full cautionary statement which can be found on page 50.



Monoscape Scala Bench

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Chairman's Statement

Well positioned for when markets improve

This is my first report to you as Chairman of your Company. Marshalls has a strong market position, a clear strategy, a leading brand, good sustainability and environmental credentials, and strong values and integrity and I regard it as a privilege to be Chairman. My objective is to ensure the Board supports our Executive team as it seeks to develop and grow the business in order to create value for shareholders whilst at the same time recognising the interests of our other stakeholders and acting in a sustainable and responsible way.

2010 was again a challenging year not only because of depressed levels of demand but also because of very adverse weather conditions at both the beginning and end of the year. Encouragingly, as we anticipated last year, we did see the turning point as initially our sales to the Public Sector and Commercial end market and then to the Domestic end market ceased year on year decline and started a slow recovery from the very low levels they had reached.

In the year our sales increased by 3.7 per cent to £323.1 million and profit before tax for 2010 was £9.2 million after an estimated £2.8 million of incremental costs as a consequence of the severe weather at both ends of the year. In the prior year the profit before tax was £12.1 million before charging works closure costs and the redemption of the debenture which were separately disclosed in the reported results. In addition to the weather impact there was a small decline in margins as we focussed on gaining market share particularly with independent merchants. Net debt at the year end was £66.8 million, improved from £69.2 million at the prior year end, even after a significantly increased pension fund contribution of £6.6 million during the year.

The early actions taken to reduce costs including the closure of four plants announced in 2008 and our focus on tight control of working capital and cash management has resulted in the Company having a strong balance sheet and being in a sound financial position. In addition, our increased focus on marketing and particularly of targeting specific market areas, including for example, security, rail and retail, means that we are well positioned to benefit as markets recover.

Whilst there is still market uncertainty around the shape of economic recovery we are confident in the progress we are making and for this reason the Board has decided to maintain the dividend.

At the beginning of each year a number of Board priorities are agreed. Last year these included Board succession, review of Executive Director remuneration and a specific focus on strategy. I am pleased that good progress has been made on all of these.

There have been a number of changes to your Board during 2010. I took over as Chairman from Mike Davies in May. Richard Scholes, who served as our Senior Independent Director and Chairman of the Audit Committee, also retired in May and Bill Husselby retired in October. Alan Coppin and Mark Edwards were both appointed to the Board in May. Alan Coppin, who is also on the Board of Berkeley Group Holdings plc, will act as Senior Independent Director and Chair the Remuneration Committee. Mark Edwards, who has a strong financial background recently with private equity companies, will Chair the Audit Committee. In October Tim Pile joined the Board. Tim Pile is Chief Executive of Cogent Elliott and has strong marketing and strategic skills.

On behalf of the Company I would like to thank Mike Davies for his clear and firm leadership of the Board and Richard Scholes and Bill Husselby for their valuable contributions and wise counsel during their periods of office.

I am very pleased with the contributions the new members of the Board are already making. They have all benefited from a comprehensive induction programme including visits to key locations. Ensuring that your Company has an effective Board will be a continuing process but it is clear we have a good diversity of skills, experience and personality.

The Remuneration Committee has carried out a review of Executive Director remuneration arrangements. This review concluded that arrangements were appropriate and in line with practices adopted by other comparable companies. However it also recommends a new Performance Incentive Plan that provides a greater retention mechanism and forfeiture of deferred payments if targets are not met. No increase in the basic salaries of the Executive Directors is proposed for 2011 leaving salaries unchanged since 2008. However we have agreed pay and salary increases for those below Board level. Full details are set out in the Remuneration Report on pages 51 to 67.

One of my objectives on becoming Chairman was to ensure that the strategic focus of the Group should continue to be a key priority. Additional time has been devoted to strategy with briefings on particular industry and strategic issues. A clear set of strategic priorities have been developed.

The actions we have set for the Board for 2011 include continued focus on strategy, greater exposure to executive management below Board level, increased contact with investors and Board development. I plan to report on these next year.

Finally, as I have visited many of our operations and have met and talked to many of our people, I recognise that they are a key strength of the Company. The economic climate is not easy at present and on behalf of the Board and Company I would like to thank all our employees for their commitment and hard work in supporting Marshalls through the current challenges.

Andrew Allner
Chairman
11 March 2011

Engraved Granite Bench, Royal Armouries, Leeds

Business Profile

Marshalls is a market focussed UK Group combining inspirational design and innovative products and services to aid the transformation of Britain's patios, driveways and urban and commercial landscapes. Marshalls is committed to quality in everything it does, including the achievement of high environmental and ethical standards and continual improvement in health and safety performance.

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

Marshalls' customers are the large builders' merchant groups, independent builders' merchants, garden centres, contractors, Local Authorities and domestic consumers.

The Group operates its own quarries and manufacturing sites throughout the UK, including a national network of manufacturing and distribution sites. Products are distributed from this network of sites either to customers' depots or, at their request, direct to site.

Current Strategy

During the last two years the Group's main focus has been to respond to the impact of the recession.

Against the backdrop of an uncertain economic environment the Group has focussed on short term actions to create greater levels of certainty by reducing cost and conserving cash by tight control of working capital and capital expenditure. These actions have been balanced with the need to protect and continue to build on Marshalls' market leading capability for the medium term. The Group has concentrated its sales effort on market sectors where activity is more robust, and has continued to invest in innovation to reduce its operating costs and extend its competitive advantage through new product development and service solutions. These initiatives have been providing the foundations for a return to growth and both sales and production are now on an upward trend. The Group's strategic focus has now turned to recovery and preparation for growth.

There continues to be a potential for growth in the Group's existing markets. The Group continues to seek opportunities to expand reserves and geographical coverage in dimensional natural stone and strategically located aggregate reserves. In addition, a number of other markets have been identified for expansion where currently the Group has existing capabilities. The Group is building its activities in Western Europe, the Middle East and Asia with particular emphasis on natural stone paving, street furniture and water management.

Classical York Replica Flagstone

Long Term Strategy and Business Objectives

The Group's objective is to emerge from the current economic downturn in a stronger position and prepare for recovery and growth. The longer term strategic objectives, which are set out below, remain the Group's cornerstone objectives.

The Group aims to deliver superior returns for shareholders, in a sustainable way, from the timely and efficient supply of high quality, value for money landscaping and walling products internationally, and other building materials in the UK. The Group aims to exceed the expectations of its customers in the UK Domestic and Public Sector and Commercial end markets through quality materials produced, administered, delivered and sold by highly motivated and engaged employees.

Long Term Corporate Objectives

Marshalls' long term corporate objectives are to deliver:

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

2. Annual earnings per share growth of RPI plus 9 per cent, with a target of RPI plus 21 per cent over a three year period;

3. Annual operating cash flow growth of RPI plus 9 per cent, with a target of RPI plus 21 per cent over a three year period;

4. A dividend policy where dividends will move in line with medium term earnings growth; and

5. Return on capital employed of 20 per cent per annum.

Long Term Strategy

The strategy to achieve these objectives is:

1. To deliver sustainable shareholder value by improving the profitability of the Group's operations and optimising the operating performance of the business.

This objective is supported by selective investment 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 and investing in manufacturing technology to improve the quality of products. The Group continues to develop, innovate and improve its unique sourcing, manufacturing and distribution network, reducing costs wherever possible. The business ensures it has high quality, timely management information and analysis, and uses this to focus on areas for improvement.

2. To maintain a strong market position and sustainable profitability with the builders' merchants and the Public Sector and Commercial end market and to improve market share in other target markets.

The Public Sector and Commercial end market requires a range of integrated products that deliver technical performance and visual appeal. The Group strives to be responsive to the requirements of all clients, architects and contractors and to be the "best in class" for technical and design support, product innovation, product quality and customer service. The Group is continually looking to deliver innovation, improve and extend its products and services in areas such as water management, street furniture, education, rail and sustainability, where it perceives there is opportunity for growth.

3. To develop relationships with installers to deliver more effective penetration of the key domestic routes to market and to improve product mix.

The Group has a long term commitment to the Domestic end market and continues to drive more sales through its strong relationships with quality installers. The Group has extended its approved installer register, and continues to focus on lead generation and sales and marketing support.

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

The Group is seeking to expand the geographical reach of existing value added products, to acquire new innovative products and to extend and expand its routes to market.

Strategic Key Performance Indicators ("KPIs")

Performance is monitored using a full suite of KPIs, but the Directors have identified the six measures below as the Group's strategic KPIs. The first three are measured over a three year period.

Target	
Revenue growth:	7 per cent per annum
Earnings per share growth:	RPI + 21 per cent over a three year period
Operating cash flow growth:	RPI + 21 per cent over a three year period
Return on capital employed:	20 per cent
Customer service index*:	95 per cent
Health & Safety reduction in reportable incidents:	10 per cent per annum

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

Additional long term KPIs have also been developed to cover the key areas of Energy Management and Environmental Sustainability to support the Group's emphasis on these key areas of future development.

These strategic KPIs are supported by a range of other KPIs designed to ensure that the short term priorities of cash management, cost reduction and working capital management are consistently aligned, and that both short and long term KPIs are closely monitored across the Group.

Review of the Operations

Market Outlook

The Construction Products Association ("CPA") has reported a 4.5 per cent increase in construction output in 2010 following the 11.4 per cent decrease in 2009, which was the economy's sharpest ever year on year fall on record.

The figures for 2010 have benefited from increases in house building and the CPA cautions that expected public spending cuts are likely to ensure that economic growth and consumer confidence remain relatively subdued in the medium term. Fragile consumer confidence and affordability for first-time buyers is expected to constrain demand going forward. The CPA forecasts that overall construction output will fall by 2.0 per cent in 2011 and by a further 0.7 per cent in 2012 before returning to growth in 2013. The construction sector as a whole is set to be boosted by infrastructure, especially within rail and energy, which are anticipated to grow considerably in the medium term, offsetting falls in works on roads. Within the Public Sector and Commercial end market the CPA estimates that Other New Work, a proxy for demand, was up 6.9 per cent in 2010, but predicts that falls of 1.8 per cent and 0.9 per cent will be experienced in 2011 and 2012.

As far as the Group is concerned Public Sector demand is currently stable, as projects are completed, although reductions are expected from the second half of 2011. In contrast, Commercial work has been at historically low levels although there is now clear evidence of delayed projects recommencing. On balance, and supported by the Group's current initiatives, the outlook for the total Public Sector and Commercial end market looks reasonable for the next year and Olympic demand is increasing as the event approaches.

In the Domestic end market the CPA estimates that Private Housing Repair, Maintenance and Improvement expenditure, a proxy for Domestic end demand, was up 1.1 per cent in 2010. Further increases of 0.5 per cent and 2.0 per cent are forecast in 2011 and 2012 respectively.

Despite this economic backdrop there are certain key factors affecting the Group's particular customer base that remain positive. The Domestic end market showed modest growth in the second half of 2010 and order books at the end of February were an encouraging 7.2 weeks (2010: 6.8 weeks).

Trading Summary

Marshalls' revenue for the year ended 31 December 2010 was £323.1 million (2009: £311.7 million) which represented an increase of 3.7 per cent and included one extra trading day. This revenue growth has been achieved despite the loss of sales at both the beginning and end of the year due to severe weather conditions.

The impact was approximately £6 million of lost sales in January and February, which we recovered during the remainder of the first half, and a further £5 million in November and December which we did not recover in the year. The incremental costs of the severe weather at both ends of the year were approximately £2.8 million, comprising additional operational, distribution and rectification costs.

Against this backdrop the overall revenue growth in 2010 clearly illustrates that sales have started to turn upwards again following the difficult trading conditions of the previous two years. Sales to the Public Sector and Commercial end market, which represent approximately 60 per cent of Marshalls' sales, were up 6 per cent for the full year. Sales to the Domestic end market were up 1 per cent compared to the prior year.

The site closure programme announced in 2008 is now complete and this has reduced our cost base by £11.4 million. This reduction is permanent and therefore by lowering our break-even point we can increase profits earlier when market volumes improve. During the site closure programme the Group released £9 million of cash from inventory and a further £4 million from the disposal of surplus properties. We have now exchanged contracts for the sale of a further released site and expect to receive cash proceeds of £5 million during 2011. Overall, the cash released from inventory and associated property is expected to exceed the cash cost of the site closures. The programme leaves the Group with well invested modern plants which have sufficient capacity to meet medium term demand requirements efficiently. The Group continues to have the operational and financial flexibility to respond to any further changes in market conditions.

Manufacturing and Distribution

The Marshalls' operating strategy combines regional manufacturing with a unique national network of distribution sites with a wide geographical spread. The national manufacturing works produce newly introduced and specialist products that may not have reached the commercial volumes to justify regional manufacture.

The same capital equipment produces products for both the Public Sector and Commercial and Domestic end markets and this flexibility remains a key operational objective. These factors optimise manufacturing efficiency and ensure that Marshalls continues to have the lowest cost to market. The Group's "lowest cost to market" operating model is expected to deliver further operating cost savings over the next two years.

This greater flexibility means that the Group has retained the capability to increase output when market demand improves without having to undertake any significant capital expenditure. Increases in market volumes and lower inventory levels mean that the Group is expecting to increase output by at least 7 per cent in 2011 with no increase in numbers employed.

These strengths support the Group's medium term growth ambitions and, in addition to the existing routes to market, a number of other markets have been identified that will open up new routes to market for both existing and new products.

The Group's plants are modern and well invested and this continues to enable capital expenditure to be maintained at historically low levels for the medium term without any noticeable impact on the effectiveness of the business. Capital investment in 2010 totalled £11.9 million (2009: £9.2 million). This compares to depreciation of £17.8 million (2009: £18.8 million). The Group will continue to invest selectively in innovation to deliver new products and improvement projects that reinforce its market leading position.

The Group continues to focus on customer service with industry leading standards of product quality, availability and "on time" delivery. The customer service index KPI measures product availability, accuracy and timeliness of deliveries and administrative accuracy. The Group's industry leading standards remained high in 2010 giving a combined customer service measure of 97 per cent (2009: 97 per cent). Marshalls continues to receive good feedback from its customers and installers for the consistency and quality of its products and service. In February 2011, Keyline (part of Travis Perkins) recognised this commitment to service by making Marshalls "Supplier of the Year" at their inaugural awards.

The Group continues to realise cash from its disposal of a small number of surplus properties, and £3.9 million has been realised in 2010. The remaining surplus assets have a book value of approximately £6 million and the Group has been working to improve the planning status of its sites. The timing of sales remains dependent on suitable planning permissions being obtained and the position has also been made considerably more difficult by the depressed state of the property market. These properties are expected to realise proceeds in excess of book value and the Group will keep its property portfolio under review in order to identify further opportunities.

Sustainability and the Environment

There continues to be a number of legislative developments and lifestyle trends that are placing greater emphasis on sustainability and carbon reduction. Marshalls has won numerous national and international awards for its ground breaking work on ethical sourcing and carbon labelling. Looking forward, these initiatives will be a "must have" and therefore represent a competitive advantage to the Group. Consequently Marshalls continues to ensure that sustainability is embedded in everything it does. Legislation in water run off and flooding is also increasing and the Group now has a full range of permeable paving and surface drainage products making this an area of opportunity.

Greenmoor Rustic Paving

The Group has pioneered the ethical sourcing of natural stone paving from India and China. With a local partner the Group has established schools, health facilities and health insurance programmes in India. Marshalls "Fairstone" products combine the attributes of fair trade and ethical sourcing.

As part of its ongoing commitment to the ETI Base Code, the Group has been driving forward ethical best practice within its Indian and Chinese natural stone suppliers. Marshalls' ethical sourcing programme incorporates regular independent supply chain audits.

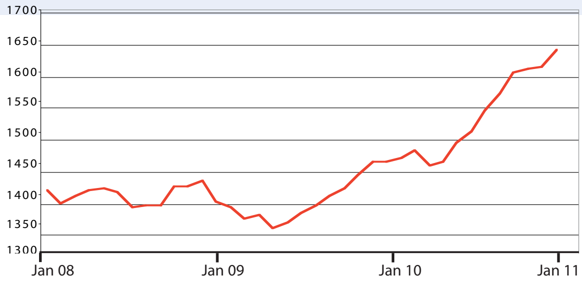
More details can be found in the Corporate Responsibility and Environmental Reports below and on the Group's website www.marshalls.co.uk/sustainability.

Domestic

Marshalls is the market leader in the domestic driveway and patio markets and continues to lead the development of the consumer landscape products market. The Group's Domestic strategy is to drive more sales through quality installers. The objective is to improve the product mix, continually develop the Marshalls brand and deliver a market leading level of service. The target customer groups for installed patios and driveways occupy 8.9 million homes, a far bigger potential market than new build. These customers are generally older, have equity in their property, earn more and often have savings. An ageing population with a retired lifestyle should continue to drive sales growth. The recent move towards building more new houses rather than flats is also a welcome trend. Quality installers remain busier, and confirm that there is a trend towards older customers and a higher proportion of cash transactions with long term home owners rather than new home purchasers. The installed housing base is 25 million, far higher than the new build market of between 100,000 and 200,000 houses per year.

In the Domestic end market Marshalls has focussed on brand development, increasing customer awareness and developing stronger links with installers. During 2010 the Group has increased its marketing support of the installer base through increased training, marketing materials and sales support. Marshalls has now built a substantial and growing network of 1,640 approved domestic installation teams throughout the country. This is unique within the hard landscaping sector and the number of installation teams on the Marshalls Register has grown by 12 per cent since the beginning of 2010 and, as indicated on the chart below, is on an upward trend.

Marshalls Register Installer Teams



Hyper Tensile Canopy, St Joseph's Junior School, Stockport

Consumer confidence has recovered from the extreme lows of late 2008 and last year installer order books returned to pre-recession levels being an encouraging 7.2 weeks at the end of February 2011 (February 2010: 6.8 weeks). However, the Group remains cautious about the outlook in view of recent consumer confidence data.

Medium term, the Group expects the more difficult market conditions to provide greater opportunity to strengthen its relationships with installers. An ageing population is combining with a lifestyle trend towards more outdoor living and the "outdoor room". Through marketing and product development the Group continues to promote solutions which respond to these trends.

The Group will continue its close association with the Royal Horticultural Society through their schools programme and with product support for gardens at the Chelsea Flower Show. Continuing media coverage helps to support an enduring increase in brand awareness. Marshalls' name is increasingly synonymous with good urban design and quality and value for money in garden and driveway makeovers.

The Group is marketing and sales led with an increasingly well known brand. For 2011 Marshalls has again been independently classified as a business Superbrand. A broad range of initiatives continue to be pursued in order to build on Marshalls' competitive advantages and the Group continues to invest selectively in innovation to drive growth in the medium term.

Public Sector and Commercial

Marshalls continues to be a market leader for the supply of a wide range of natural stone, concrete and fabricated products to the Public Sector and Commercial end market. This market includes PFI expenditure on schools and hospitals. Such products include paving, kerbs, edging, surface drainage and street furniture. The aim is to deliver products that are visually attractive and also practical to use and install. Marshalls' portfolio of products can be combined to create an attractive landscaped area, with its technical expertise providing added value as part of the pre and post sales service.

Bellitalia Giove Planters, Cardiff

Within the Public Sector and Commercial end market delayed projects have recommenced although the time delay from the contract awarded date to the product delivery requirement has increased. The Group's lead indicators remain mildly positive with any weakness in the Public Sector being compensated for by stronger Commercial demand.

A good example of product innovation is the Group's range of anti-terrorist bollards developed in conjunction with the Centre for Protection of National Infrastructure. There has been significant interest in this new range of products worldwide with quotations raised to date in excess of £3.5 million and specifications secured in excess of £2 million.

Marshalls is the only landscape products business that is able to provide a fully integrated product offer to the Public Sector and Commercial end market. This integrated offer was created in response to the specific demand of clients, architects and contractors but its value is now also appreciated in a wider environmental context and increasingly by local authorities and other Public Sector bodies.

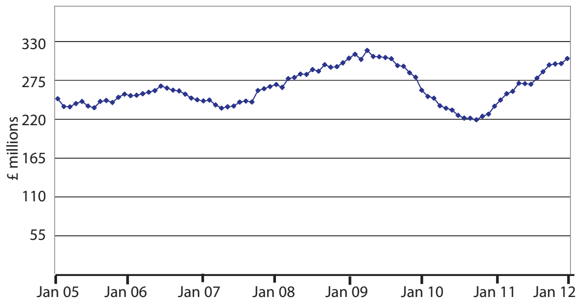
The Group is making excellent progress delivering the integrated product offer and in 2010, 50 per cent of all sales enquiries covered more than one product category and 20 per cent covered three or more.

The Group has experienced technical and sales teams focussed on the key growth areas and by working with clients, architects and contractors it is able to provide a unique overview of the project and offer a complete solution comprising a full suite of products.

The Group's marketing team continue to identify areas of future growth. The rail and education sectors have been identified as such areas and an integrated rail offer has been developed which includes a number of new products. Rail construction has largely been isolated from the Comprehensive Spending Review cuts. Homescape is the latest area being targeted by the Group in this way.

Many projects have a lead time of two to three years. The Group has deliberately retained its experienced technical and sales teams. Relationships with clients, architects and contractors and the development of systems to identify projects are a key priority. The visibility of projects through externally measured sources such as Barbour ABI gives a measure of control over securing future volume. This approach continues to deliver good growth in bespoke street furniture, natural stone paving and sustainable urban drainage products.

Contract Awarded 12 Month Rolling Average of Hard Landscape Value Adjusted (Barbour ABI Lead Indicator with 12 Month Lag)



Historically, the Barbour ABI chart has provided a reliable picture of future demand. It consolidates planning information for all the sub sectors requiring hard landscaping. Historically, there has been a 12 month lag between contracts being awarded and the landscape products being required, and this provides 12 month advance information on likely future demand.

During the recession, some projects were delayed, although encouragingly, many have now recommenced and cancellations are no longer a material issue. The largest paving project of the last five years is at Felixstowe docks and is equivalent to 47 Wembley football pitches. This project was expected to start in January 2009 and eventually started in February 2010, a delay of thirteen months. This project is using Marshalls Machine Lay Keyblok product. Marshalls has pioneered machine lay paving in the UK which speeds up installation and minimises health and safety issues.

Even allowing for some uncertainty in the Public Sector, the chart illustrates that the indicator remains positive during 2011.

Deliveries to the Olympics Project are increasing and the Group is supplying the whole of the landscape package for the Athletes Village which after the Games will remain as Cobham Academy. Order intake has now reached £6.8 million compared to £3.6 million six months ago.

The Group continues to look at a range of acquisition opportunities in the short term, but also remains focussed on delivering shareholder value from its existing operations. The Group continues to seek opportunities to expand reserves and geographical coverage in dimensional natural stone and strategically located aggregates reserves. The table below shows the Group's total mineral reserves comprising block stone for paving and walling stone and also for crushed aggregates.

Mineral Reserves

	Reserves tonnes (m) 2010	**Reserves years 2010**	Reserves tonnes (m) 2009	Reserves years 2009
Block stone	**8.5**	**57**	8.7	58
Aggregates	**46.1**	**25**	48.4	27

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

Motis Shelters, Fonthill and Hazelhatch, Ireland

Organisation and Key Contractual Relationships

The Group operates a number of centrally managed production units throughout the United Kingdom, supported by a single integrated logistics and distribution operation. The Group's operating assets produce and deliver a range of products that are sold into each market area. The structure gives flexibility in the development of individual products under the Marshalls' brand whilst providing strategic focus through the integrated national and centrally administered functions.

The Principal Risks section on pages 21 to 24 outlines the risk management aspects of the Group's contractual arrangements. Marshalls has a wide range of suppliers and customers, and whilst the loss of, or disruption to certain of these arrangements could temporarily affect the Group's operations, there are no significant contractual arrangements that are considered essential to the Group's business in the long term. The Group remains keen to develop partnerships with both suppliers and customers in order to maintain high standards of quality, value, ethics and service throughout its operations.

Corporate Responsibility

Marshalls places special emphasis on Corporate Responsibility and considers that this is very much aligned with the sustainable and economic growth objectives which are for the benefit of all stakeholders.

Further details relating to social and community issues, including employees, health and safety, the policies of the Group and the effectiveness of these policies, are set out in the Corporate Responsibility Report on pages 27 to 32.

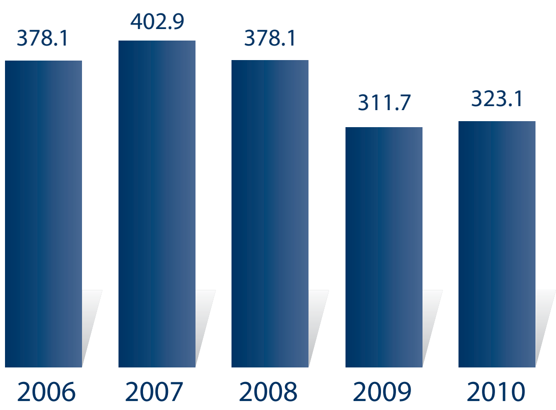
Research and Development

Marshalls has a world class Manufacturing, Innovation and Development team, staffed by high calibre engineers and technicians, which delivers competitive advantage through machinery design and installation. Excellent levels of product availability and on-time delivery performance have enabled distribution costs to be controlled despite pressures from legislation, congestion and rising fuel prices. The Group is continually striving to improve the flexibility and effectiveness of product manufacture and is at the forefront of technical research and development.

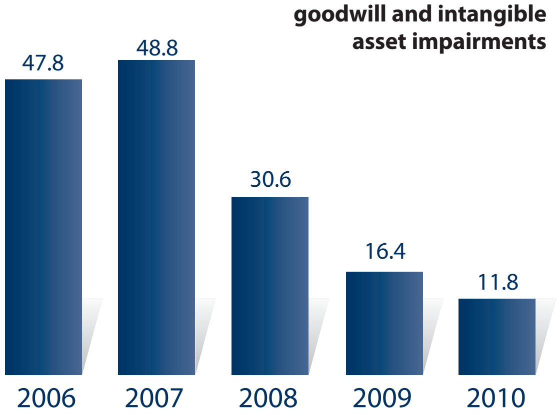
Innovation in all areas of the business over an extended period has been a key element of the Group's success and significant resources will continue to be invested in Research and Development in the future. As disclosed in Note 3 on page 89, research and development expenditure in the year ended 31 December 2010 amounted to £3,341,000 (2009: £2,826,000).

Financial History

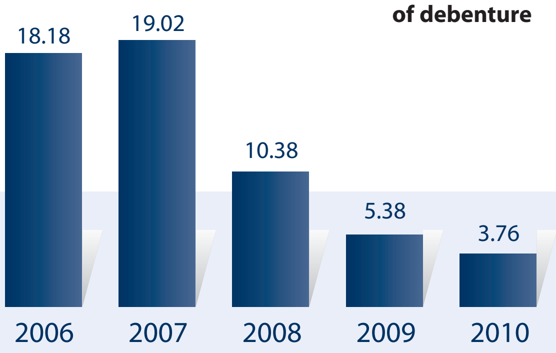
Revenue (£'m)



Operating profit (£'m) - before works closure costs, goodwill and intangible asset impairments



Basic earnings per share (pence) - before works closure costs, goodwill and intangible asset impairments and redemption of debenture



Operating profit and basic earnings per share are disclosed before works closure costs, goodwill and intangible asset impairments and the redemption of the debenture.

As at 31 December 2010 the Company's share price was 104.75 pence per share. When dividends are included this gives a negative total shareholder return ("TSR") of 51.1 per cent over a five year performance period. A performance graph has been disclosed on page 63 showing the Group's TSR compared with the FTSE 250 Index and the FTSE Small Cap Index.

Financial Review of 2010

Revenue for the year ended 31 December 2010 was £323.1 million (2009: £311.7 million), an increase of 3.7 per cent and included one extra trading day. This result has been achieved despite the loss of a significant volume of sales at both the beginning and end of the year due to severe weather conditions. The impact was approximately £6 million of lost sales in January and February, which was recovered before June 2010, and a further £5 million in November and December which was not recovered.

Revenue

		Change
	£'m	**%**
2009	311.7	
Working days (1 extra in 2010)	1.3	**0.4**
Sub-total	313.0	**0.4**
Trading	10.1	**3.3**
2010	**323.1**	**3.7**

Overall sales volumes were up approximately 3 per cent and sales price and mix were ahead by around 1 per cent. In the Public Sector and Commercial end market sales volumes were up 5 per cent and sales price and mix were up by 1 per cent. In the Domestic end market sales volumes were up 1 per cent. Sales price and mix were up 2 per cent, but these were offset by the impact of certain targeted promotions, and after accounting for these promotions, sales price and mix were approximately flat compared with 2009.

Underlying profit	**2010**	2009
	£'m	£'m
Operating profit: before works closure costs and impact of severe weather	**14.6**	16.4
Works closure costs	**–**	(7.2)
Impact of severe weather	**(2.8)**	–
Operating profit: reported	**11.8**	9.2
EBITA (before works closure costs and impact of severe weather)	**16.2**	17.3
EBITDA (before works closure costs and impact of severe weather)	**33.9**	36.0
EBITA (reported)	**13.4**	10.1
EBITDA (reported)	**31.1**	28.8

EBITDA was £31.1 million (2009: £28.8 million) and operating profit, on a reported basis, was £11.8 million (2009: £9.2 million). In 2009 the Group charged works closure costs of £7.2 million, relating to the closure of the Llay site and further capacity reductions and these were disclosed separately in the reported results. In 2010 the incremental costs of the severe weather at both ends of the year were approximately £2.8 million comprising additional material, operational, distribution and rectification costs. Before the impact of both of these costs EBITDA would have been £33.9 million (2009: £36.0 million) and operating profit would have been £14.6 million (2009: £16.4 million).

The site closure programme is now complete and this has reduced overall manufacturing capacity by approximately 21 per cent. Annualised fixed cost savings are approximately £11.4 million. In addition to the fixed cost savings, there has been a one-off benefit from the release of cash from inventory of around £9 million as a consequence of the works closures. Overall, the cash released from inventory and property disposals associated with the closures is expected to exceed the cash cost of the site closures. The programme leaves the Group with well invested modern plants which have sufficient capacity to meet medium term demand requirements efficiently.

Basic earnings per share was 3.76 pence (2009: reported loss of 0.42 pence per share; earnings of 5.38 pence, before works closure costs and the redemption of the debenture).

Underlying margin reconciliation

	Revenue	Movement in Operating Profit	Margin Impact
	£'m	£'m	%
2009	311.7	16.4*	5.3*
Working days (1 extra in 2010)	1.3	0.3	0.1
	313.0	16.7	5.4
Trading			
Sales price / cost inflation	4.9	(1.6)	(0.6)
Promotions	(1.9)	(2.2)	(0.7)
Volume	7.1	1.7	0.4
2010 before severe weather impact	**323.1**	**14.6**	**4.5**
Increment cost of severe weather	–	(2.8)	(0.8)
2010	**323.1**	**11.8**	**3.7**

* operating profit before 2009 works closure costs

There were cost increases of around £6.5 million in 2010 and these were not fully absorbed by sales price increases, which amounted to £4.9 million. This was mainly due to additional fuel costs above the amount anticipated. Product mix was slightly weaker reflecting a higher proportion of projects that utilised standard products and in the Domestic end market promotional activity to gain further distribution reduced margins slightly. The incremental costs of the severe weather also reduced operating margins by 0.8 per cent. When markets improve, however, there is a real opportunity to benefit both from improved operational gearing in both sales and production levels and from the lower cost base. Operating profit was £11.8 million with a resulting operating margin of 3.7 per cent (2009: 5.3 per cent before works closure costs).

Analysis of revenue by end market sector

	2010 £'m	2009 £'m	Change %
Domestic	**130.7**	130.0	0.5
Public Sector and Commercial	**192.4**	181.6	5.9
Total	**323.1**	311.6	3.7
Overall percentage			
Domestic	**40.5%**	41.7%	
Public Sector and Commercial	**59.5%**	58.3%	

The Public Sector and Commercial end market now comprises approximately 60 per cent of the Group revenue. Like for like revenue showed an increase of 5.9 per cent in the year. Sales to the Domestic end market rose by 0.5 per cent.

Financial KPIs

The key financial KPIs are set out on page 8. Performance against these targets continues to be affected by the severe economic recession that has impacted the UK economy and therefore the Group's markets. Measured at 31 December 2010, performance was as follows:

- Revenue growth

  Against a target of 7 per cent per annum growth, over a three year period, the Group's revenue has fallen by 7.1 per cent (2007-2010) on a CAGR basis.

- Earnings per share growth

  Against a target of RPI + 21 per cent over a three year period the Group's earnings per share has fallen by 80.2 per cent (2007-2010), before works closure costs, goodwill and intangible asset impairments and the redemption of the debenture.

- Operating cash flow growth

  Against a target of RPI + 21 per cent over a three year period the Group's operating cash flow has fallen by 24.0 per cent (2007-2010).

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

  ROCE for 2010 was 5.0 per cent (before works closure costs, goodwill and intangible asset impairments) which is compared with the long term target of 20.0 per cent.

To support these, the Group operates a range of short term KPIs.

Net Financial Expenses

Net financial expenses were reduced significantly to £2.6 million (2009: £4.3 million, before the redemption of the debenture). This was due mainly to the redemption in 2009 of the Group's £20 million Debenture Stock. Interest cover was 4.6 times (2009: 3.8 times, before works closure costs and the redemption of the debenture).

The IAS 19 notional interest comprises interest on obligations under the defined benefit section of the Marshalls plc Pension Scheme net of the expected return on Scheme assets. In 2010 the IAS 19 notional interest charge was £0.4 million.

Woodhouse Bespoke Polished Granite Seats, Kings College, London

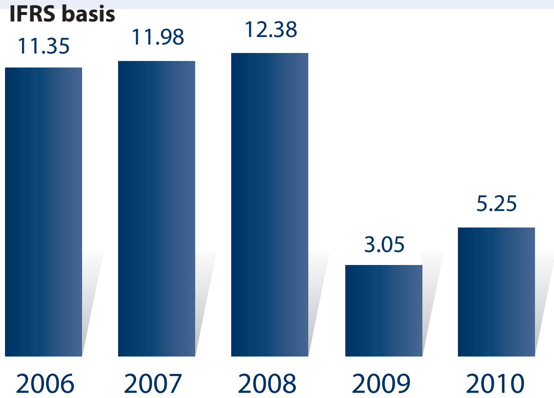
Taxation

The tax charge for 2010 was £1.9 million (2009: £2.4 million, before works closure costs and the redemption of the debenture) which represented an effective rate of 20.2 per cent (2009: 20.1 per cent). This is due to tax credits from finalising earlier years' computations.

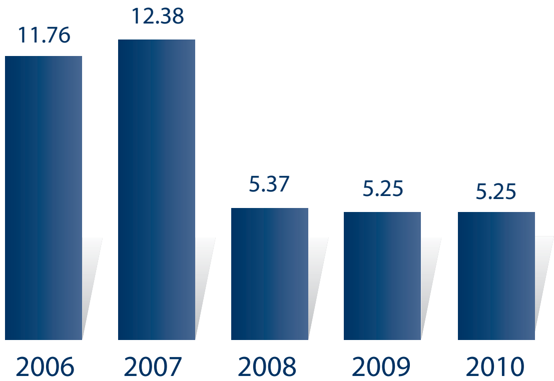
Deferred tax of £7.5 million in relation to the actuarial gain arising on the defined benefit Pension Scheme in the year has been taken to the Consolidated Statement of Comprehensive Income.

Dividends

Dividend per ordinary share (pence)*
IFRS basis



Dividend per ordinary share (pence) *
Traditional basis



*Dividends per share have been adjusted by the "bonus factor" inherent in the Rights Issue.

An interim dividend of 1.75 pence (2009: 1.75 pence) per share was paid on 3 December 2010. A final dividend of 3.50 pence (2009: 3.50 pence) per share is now being recommended for payment on 8 July 2011 to shareholders on the register at the close of business on 10 June 2011.

The ex-dividend date will be 8 June 2011. This gives a total dividend of 5.25 pence (2009: 5.25 pence) per share for the year. The maintenance of the dividend at these levels reflects the current stabilisation of the Group's markets and the comfortable level of cash cover.

On an IFRS basis, which does not account for the final dividend until it is approved at the forthcoming Annual General Meeting, the dividend declared for the year ended 31 December 2010 is 5.25 pence (2009: 3.05 pence) per share.

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

Balance Sheet

Consolidated Balance Sheet	2010	2009
	£'m	£'m
Non-current assets	**236.9**	256.9
Current assets	**113.6**	122.8
Current liabilities	**(94.6)**	(77.1)
Non-current liabilities	**(53.6)**	(83.5)
	202.3	219.1
Employee benefits (before deferred tax)	**(4.1)**	(38.0)
Net assets	**198.2**	181.1
Net debt	**(66.8)**	(69.2)
Period end gearing	**33.7%**	38.2%

Net assets at 31 December 2010 were £198.2 million (2009: £181.1 million).

The Group's inventory reduction programme, following the closure of four manufacturing sites, has been very successful. In 2010 inventory values were maintained with upward cost inflation being offset by volume decrease. The Group continues to keep a tight control of receivables and debtor days remain industry leading. The Group maintains credit insurance which provides excellent intelligence to minimise the number and value of bad debts and ultimately provides compensation if bad debts are incurred.

Risk management has been a key focus for the Group's Pension Scheme over recent years and the actions the Group has taken have reduced actuarial volatility and risk. Under the Scheme specific funding requirements there is a recovery plan under which the Group continues to make cash contributions into the Scheme.

At 31 December 2010 the accounting net pension liability was £4.1 million compared with £38.0 million in the prior period. This position has benefited from a £12.1 million reduction due to the actuarial change from the Government's decision to move from RPI to CPI for deferred and future pension increases and a gain in the Scheme's assets of £13.7 million. These gains have been partially offset by a reduction in the AA corporate bond rate from 5.8 per cent to 5.5 per cent.

These changes have resulted in an actuarial gain of £20.2 million (net of deferred taxation) (2009: £40.3 million loss net of deferred tax) and this has been recorded in the Consolidated Statement of Comprehensive Income. The net liability of £4.1 million is made up of £212.4 million in respect of the present value of funded obligations less £208.3 million for the fair value of Scheme assets. The values have been determined by the Scheme Actuary using prudent assumptions in line with current market levels for accounting purposes.

Analysis of Net Debt

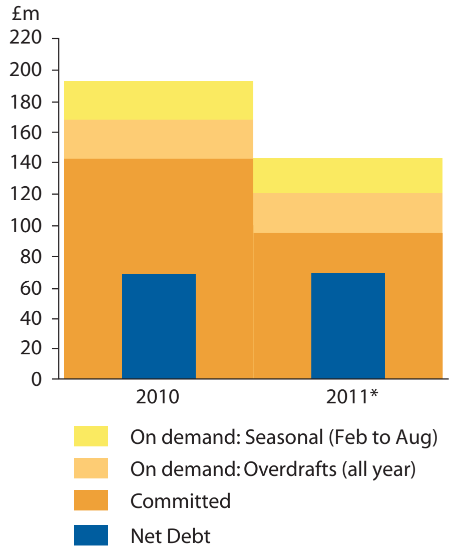
Analysis of net debt	**2010**	2009
	£'m	£'m
Cash and cash equivalents	**4.1**	9.2
Bank loans	**(70.9)**	(78.4)
	(66.8)	(69.2)

The above table shows an analysis of net debt at 31 December 2010. Net debt has reduced to £66.8 million from £69.2 million during the year with gearing at the year end being 33.7 per cent (2009: 38.2 per cent).

Borrowing facilities

The Group renewed its bank facilities in August 2010 and, as illustrated in Note 18 on pages 100 to 104, has significant committed facilities in place with three banks and with a positive spread of medium term maturities. The total bank borrowing facilities at 31 December 2010 amounted to £168.4 million (2009: £168.4 million) of which £97.5 million (2009: £90.0 million) remained unutilised. Committed facilities expiring in the second half of 2011 amounting to £40.9 million have been classified as current liabilities and we have continued to utilise these as they represent low effective costs of borrowing. The Group will review these during 2011 and continue its policy of ensuring that there is a good spread of medium term maturities at all times. The Group has also a seasonal working capital facility of £20.0 million which is available between 1 February and 31 August each year. The chart below illustrates that the Group has significant headroom in its facilities with utilisation at 31 December 2010 representing just under 40 per cent of the available facilities.

Interest cover and net debt to EBITDA covenants in the facilities were met at the year end. The bank facilities are unsecured save for inter-company guarantees between the Group and its subsidiary undertakings in favour of the facility banks.



*2011 based on consensus information

Cash generation

Consolidated Cash Flow	2010	2009
	£'m	£'m
Free cash flow	**28.8**	37.4
Works closure costs	**(1.4)**	(6.9)
Pension contributions	**(6.6)**	(2.1)
Net cash flow from operating activities	**20.8**	28.4
Net cash flow from investing activities	**(8.1)**	(7.5)
Cash flow from financing activities		
(Pre Rights Issue)	**(10.3)**	(12.8)
Rights Issue	**–**	34.0
Movement in net debt in the period	**2.4**	42.1
Net debt at beginning of period	**(69.2)**	(111.3)
Net debt at end of period	**(66.8)**	(69.2)

The Group continues to be cash generative. In the year ended 31 December 2010 the free cash flow was £28.8 million (2009: £37.4 million). Net cash flow from operating activities was £20.8 million (2009: £28.4 million) after deducting £1.4 million (2009: £6.9 million) of one-off cash expenditure in relation to works closures and pension contributions of £6.6 million (2009: £2.1 million). The Group benefited from a modest reduction in inventory and other net working capital.

Analysis of cash utilisation	2010	2009
	£'m	£'m
Free cash flow	**28.8**	37.4
Works closure costs	**(1.4)**	(6.9)
Pension contributions	**(6.6)**	(2.1)
Net cash flow from operating activities	**20.8**	28.4
Capital expenditure	**(11.9)**	(9.2)
Proceeds from sale of assets	**3.9**	2.4
Acquisitions	**(0.1)**	(0.7)
Rights Issue	**–**	34.0
Redemption of debenture	**–**	(7.3)
Cash returned to shareholders	**(10.3)**	(5.5)
Movement in net debt	**2.4**	42.1

Free cash flow is shown after financial expenses and tax, but before cash contributions to the Pension Scheme and works closure costs. As a consequence of redeeming the £20 million Debenture Stock, interest payments were almost 50 per cent lower than 2009.

Total expenditure on capital expenditure and acquisitions in the year was £12.0 million (2009: £9.9 million). The majority of this expenditure was invested in the replacement of existing assets, in business improvements and new process technology. Proceeds from the sale of surplus assets contributed £3.9 million.

Dividend payments in the year were £10.3 million (2009: £5.5 million). In 2009, cash outflows from financing activities also include £7.3 million in respect of the premium on the redemption of the debenture.

The utilisation of cash over the last three years is illustrated below:

Analysis of cash utilisation, 2008-2010	
	£'m
Operational cash generation	86.8
Capital expenditure (net of disposal proceeds)	(25.4)
Acquisitions	(6.9)
Pension contributions	(15.3)
Other financing items	(0.7)
Sub-total	38.5
Cash returned to shareholders	(35.1)
Rights Issue	34.0
Redemption of debenture	(7.3)
Movement in net debt	30.1

	2007	2010
	£'m	£'m
Net debt	(96.9)	**(66.8)**
Capital employed	200.6	**198.2**
Gearing	48.3%	**33.7%**

This table provides a medium term three year analysis of the cash generation capacity of the Group and how cash generated has been utilised. Cash generated from operating activities was £86.8 million. The Group has re-invested £25.4 million (net of disposal proceeds) back into the business in the last three years, which represents a significant reduction from earlier levels. This reduction has been possible as a consequence of the major capital investment programme in the first half of the decade, giving the Group efficient, industry leading manufacturing and distribution facilities, and enabling it to reduce capital expenditure during the downturn to preserve cash.

The Group has also invested £6.9 million in business acquisitions in the last three years and paid £15.3 million in Pension Scheme contributions. Cash generation before dividends, the impact of the Rights Issue and the redemption of the Debenture Stock has been £38.5 million over the last three years. Net debt has fallen by £30.1 million, in the same period, with gearing falling to 33.7 per cent.

As explained earlier, the Group's cash generation performance against detailed cash flow targets is a strategic KPI. In 2010, the short term targets that were set by the Board to support this were achieved. The Board's current short term objective is to conserve cash wherever possible and to maintain gearing at around the current level under normal operating conditions.

Principal Risks and Risk Management

The Group's Risk Committee determines the Group's approach to risk, its policies and the procedures that are put in place to mitigate exposure to risk. There is a formal ongoing process to identify, assess and analyse risks and those of a more material nature are included in the Group Risk Register. The Group Risk Register is reviewed and updated at least every six months. Risks are recorded with a full analysis and risk owners are nominated who have authority and responsibility for assessing and managing the risk. All risks are analysed for impact and probability to determine exposure and impact to the business and the determination of a "gross risk score" enables risk exposure to be prioritised. External risks include the weather, political and economic conditions, the effect of legislation or other regulatory actions, the actions of competitors, foreign exchange, raw material prices and pension funding. Internal risks include investment in new products, new business strategies and acquisitions.

The Group seeks to mitigate exposure to all forms of strategic, financial and operational risk both external and internal. The effectiveness of key mitigating controls is continually monitored and such controls are subjected to internal audit and periodic testing in order to provide independent verification where this is deemed appropriate.

Fairstone Driveway Setts, Silver Birch

The effectiveness and impact of key controls are evaluated and this is used to determine a "net risk score" for each risk. The process is used to develop action plans that are used to manage, or respond to, the risks and these are monitored and reviewed on a regular basis by the Group's Risk Committee.

The principal risks and uncertainties facing the Group are described below.

Strategic Risks

Economic Conditions

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

Competitor Activity

A failure to compete with competitors on price, product range, quality and service could have an adverse effect on the Group's financial results. The increase in demand for imported natural stone products may also attract new low cost competitors into the market. All these areas are monitored on a constant basis and the Customer Service Index remains one of the Board's key strategic KPIs. The Group continues to invest in strategies that enhance the Marshalls brand.

Increases in the price of oil, utilities and other raw materials

Any significant increases in the price of oil, utilities and other raw materials could adversely affect the Group's performance. Diversity of operations reduces the risk on any single item supplied and purchasing policies seek to take into account and mitigate such risks, where possible.

Financial Risks

Access to Funding

The Group requires continued access to debt funding in order to meet its trading obligations and to support the growth of the business. Uncertainty in financial markets means that there is a potential risk that the Group may be unable to obtain additional funds when needed or may be able to do so, but on unfavourable terms. A breach of bank covenants could result in elements of the Group's borrowings becoming immediately repayable. The Group renewed its bank facilities in August 2010 and introduced HSBC Bank plc as an additional banking partner. The introduction of a third bank creates additional financial flexibility. The Group has significant committed facilities in place with a good spread of medium term maturities. The Group manages its medium term bank debt to ensure continuity of funding and the policy is to arrange funding ahead of requirements and to maintain sufficient un-drawn committed bank facilities. To mitigate these risks the Group constantly reviews its strategic forward plans to reflect changing market conditions with the aim of maintaining significant headroom against its facilities. Medium term financial forecasts and shorter term budgets are regularly reviewed to assess financing requirements to ensure sufficient headroom against facilities.

Financial Instruments

The main risks arising from the Group's financial instruments are liquidity risk, interest rate risk, credit risk and foreign currency risk. The Board reviews and agrees policies for managing each of these risks and these are summarised in Note 18 on pages 100 to 104 of the Financial Statements. These policies have remained unchanged since 2009. It is the Group's policy, and has been throughout the period under review, that no speculative trading in financial instruments shall be undertaken.

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

Pensions

The defined benefit section of the Pension Scheme was closed to future service accrual on 1 July 2006 and the introduction of a new defined contribution section to the Pension Scheme has allowed the Group to manage risk better and reduce volatility in the future. Nevertheless the Group continues to be subject to various financial risks in relation to the Pension Scheme, principally the volatility of the discount (AA corporate bond) rate relative to gilt yields, any downturn in the performance of equities and increases in the longevity of members. The sensitivity to the AA corporate bond rate is broadly that, all other things being equal, a 0.1 per cent movement in the discount rate is equivalent to a movement of approximately £3.5 million in the Scheme liabilities. This sensitivity would be offset very substantially by a movement in Scheme assets where the change in AA corporate bond yield is simply a movement in line with fixed interest securities in general. The sensitivity to inflation is broadly that, all other things being equal, a 0.1 per cent movement is equivalent to a movement in the Scheme liabilities of broadly £1.5 million, although this would also be offset almost entirely by a movement in Scheme assets. As far as mortality is concerned an increase of one year in life expectancy would, all other things being equal, give rise to an increase in Scheme liabilities

Coach House Paving, Heathland

of approximately £6.5 million. Risk management remains a core theme of the Group's Pension Scheme strategy and the recent transfer of a proportion of Scheme assets from equities to liability driven investments is a further example of an action that has reduced volatility and risk.

Operational Risks

Business integration

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

Employees

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

Key Relationships

The Group has strong relationships with its business partners while seeking to ensure that it is not dependent on any single category of customer, contractor or supplier. Business dealings are governed by a combination of longer term and single transaction written contractual terms.

Group Outlook

Sales have started to turn up following the difficult trading conditions of the previous two years although market uncertainty remains. On balance, the outlook for the Public Sector and Commercial end market is mildly positive. The Domestic end market showed modest growth in the second half of 2010 and installer order books at the end of February 2011 were an encouraging 7.2 weeks.

Through the recession we have set out to ensure that the business will be in a strong position to benefit when markets improve. We have permanently reduced the cost base of the business and now have the lowest cost to market across the widest geographical range. Growth opportunities exist and we have the operational and financial flexibility to take advantage of these as they arise.

Directors' Biographical Notes

Andrew Allner (57) (2,3)
Non-Executive Chairman

Term of Office: Appointed to the Board in July 2003. Last re-elected in May 2010 and appointed as Chairman of the Board on 12 May 2010 following Mike Davies' retirement. Also Chairs the Nomination Committee, and was Chairman of the Remuneration Committee until May 2010.
Independent: Yes
Skills and experience: Andrew Allner currently serves as Non-Executive Director and Chairman of the Audit Committee at CSR plc, AZ Electronic Materials SA, The Go-Ahead Group plc and Northgate plc. He was previously Group Finance Director of RHM plc, taking a lead role in its flotation in July 2005 on the London Stock Exchange. Prior to joining RHM plc, Andrew Allner was CEO of Enodis PLC, and he has also served in senior executive positions with Dalgety PLC, Amersham International PLC and Guinness PLC. He is a former partner of Price Waterhouse and is a Fellow of the Institute of Chartered Accountants in England and Wales. He is a graduate of Oxford University.

Graham Holden (51)
Chief Executive

Term of Office: Appointed to the Board in 1992. Last re-elected in May 2010.
Independent: No
Skills and experience: Graham Holden joined the Group in 1986. He is a Chartered Accountant and graduate of the Harvard Advanced Management Programme. He was previously Group Finance Director, and has held other senior executive positions within the Group. He was appointed to his current position on 1 January 2004. He is also a Non-Executive Director of KCOM Group Plc, appointed in 2007, and Chairs its Remuneration Committee. He is Chairman of the Yorkshire and Humber Regional Advisory Board of Business in the Community, and was appointed as the 2010 Prince's Ambassador to the region. He also serves on the Boards of the Construction Products Association and the Mineral Products Association.

Ian Burrell (53)
Finance Director

Term of Office: Appointed to the Board in June 2001. He was last re-elected in May 2008 so in accordance with the Company's constitution is retiring and standing for re-election in 2011.
Independent: No
Skills and experience: Ian Burrell joined the Group in 2001. He is a Chartered Accountant and has held a number of senior financial positions in industry, including that of Group Finance Director at Cornwell Parker plc. He is also Chairman of Trustees of the Company's Pension Scheme, and is a Non-Executive Director and Trustee of Leeds Trinity University College.

David Sarti (45)
Chief Operating Officer

Term of Office: Appointed to the Board in November 2004. Last re-elected in May 2009.
Independent: No
Skills and experience: Joined the Group in March 2001 as Group Operations Director having previously been a business strategy consultant with Accenture. He is a Chartered Director. He is also a Non-Executive Director of a private group of companies in the distribution and retail sector, and serves on the Board of the British Pre-Cast Concrete Federation Limited.

Alan Coppin (60) (1,2,3)
Non-Executive Director

Term of Office: Appointed to the Board in May 2010. He is the Senior Independent Non-Executive Director and Chairman of the Remuneration Committee.
Independent: Yes
Skills and experience: Alan Coppin has extensive cross-sector governance and management experience. He is currently Chairman of The Retail People and is a Non-Executive Director of the Royal Air Force, and of Berkeley Group Holdings plc, where he Chairs the Remuneration Committee. His previous roles include Chairmanship of the Prince's Foundation for the Built Environment and Non-Executive directorships at Capital and Regional plc and Carillion plc.

Mark Edwards (56) (1,2,3)
Non-Executive Director

Term of Office: Appointed to the Board in May 2010. Chairman of the Audit Committee.
Independent: Yes
Skills and experience: Mark Edwards is a Chartered Accountant with a strong financial background and wide UK and international experience, especially in the manufacturing sector. He is Chief Executive Officer of Aim Aviation Limited, and was formerly Chief Executive of the Baxi Group. He has also served as Vice President of the Construction Products Association.

Tim Pile (58) (1,2,3)
Non-Executive Director

Term of Office: Appointed to the Board in October 2010.
Independent: Yes
Skills and experience: Tim Pile is the Chief Executive of Cogent Elliot, the independent advertising agency, and was formerly Chief Executive Officer of Sainsbury's Bank. He has held a number of senior roles in the financial services and marketing communications industries and has wide business experience, particularly in marketing.

Other Directors serving during the year

Mike Davies – Non-Executive Chairman (2,3)
Appointed October 2004, retired May 2010. Served as Chairman of the Board until retirement.

Richard Scholes – Non-Executive Director (1,2,3)
Appointed July 2003, retired May 2010. Served as Senior Independent Director, and as Chairman of the Audit Committee until retirement.

Bill Husselby – Non-Executive Director (1,2,3)
Appointed March 2005, retired October 2010.

Board Committee Membership during the year
1- Member of the Audit Committee
2- Member of the Nomination Committee
3- Member of the Remuneration Committee

Andrew Allner ceased to be a member of the Audit Committee on his appointment as Chairman. Other retiring Directors ceased to be members of Board Committees on their retirement from the Board.

Cathy Baxandall
Group Company Secretary

Advisers

Stockbrokers
Citigroup Global Markets Limited
Numis Securities Limited

Auditors
KPMG Audit Plc

Legal Advisers
Herbert Smith LLP
Eversheds LLP
Pinsent Masons LLP

Financial Advisers
N M Rothschild & Sons Limited

Bankers
Royal Bank of Scotland plc
Lloyds TSB Bank plc
HSBC Bank plc

Registrars
Computershare Investor Services PLC
The Pavilions
Bridgwater Road
Bristol BS99 6ZZ

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Corporate Responsibility

"We regard Corporate Responsibility as a journey in the course of which we aim to align our business values, purpose and strategy with the social and economic needs of our stakeholders, whilst embedding responsible and ethical business polices and practices in everything we do."

For many years now, Marshalls has led the way in responsible business and sustainability, engaging with customers, employees and wider stakeholders. The Group is committed to maintaining high standards and operating a sustainable approach to business. David Sarti is the Board Director responsible for managing the key elements of the Corporate Responsibility policy, supported by a full time Corporate Responsibility Manager and a Group Head of Sustainability.

Marshalls is pleased to be a constituent member of the FTSE4Good UK Index and a member of Business in the Community ("BITC"). Being part of BITC demonstrates and supports the Group's commitment to responsible business practice, and helps the Group to develop a more co-ordinated and integrated approach to implementing the Group's Corporate Responsibility strategy. BITC has recently announced the appointment of Graham Holden, Marshalls' Chief Executive, as its new Regional Advisory Board Chairman for Yorkshire and Humber. Graham Holden has taken an active role on the Regional Advisory Board since its inception in October 2008 and he was announced as the 2010 Prince's Ambassador in Yorkshire and Humber for his leadership and commitment to responsible business in the region.

The Group publishes an annual Corporate Responsibility Report. This report sets out the detailed activities of the Group and explains more fully the Group's approach to, and initiatives connected with, sustainability and corporate responsibility. The 2010 Corporate Responsibility Report is available on the Company's sustainability website – www.marshalls.co.uk/sustainability.

External recognition

In 2010, Marshalls was honoured by being named National Example of Excellence for Sustainable Marketing and Innovation by the Business in the Community Awards for Excellence. The judges considered Marshalls to be a true example of a company which has innovated to ensure sustainability runs through its whole business, providing products which really address the sustainability needs of its customers.

In the same awards, Marshalls was also recognised with:

- A Big Tick for Skills in the Workplace – awarded to Brookfoot Works;
- Re-accreditation as a Big Tick Winner for 'Reducing Carbon Impact';
- Re-accreditation as a Big Tick Winner for 'Ethics in the Supply Chain'; and
- Highly Commended in the 'Work Inspiration' award.

Back on the national stage Marshalls triumphed at the PLC Awards by picking up the Achievement in Sustainability Award for the second year running. These are highly prestigious corporate awards with a judging panel drawn from respected leading figures in industry. Awards such as this clearly demonstrate the economic as well as moral imperative to go beyond legislative compliance and manage the business responsibly.

Corporate recognition was also to be found in Marshalls' selection as a 'Superbrand'. The announcement followed a robust selection process administered independently by The Centre for Brand Analysis who analysed the views of a voluntary Expert Council and over 1,700 business professionals.

The Market Place

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

The Group Purchasing Policy sets out the standards and ethics by which business is conducted. It seeks to ensure that there is no bias or conflict of interest and that all suppliers are treated fairly. The policy is regularly reviewed and updated in the light of changes to regulation and best practice. In 2010 the policy and procedures were reviewed to ensure that the principles set out in the UK Bribery Act were included. The Group negotiates terms and conditions, including payment terms, with all its principal suppliers.

Marshalls' Sponsored School in India

Save in the case of a dispute, payments are made in accordance with such negotiated arrangements. The Group values and derives considerable competitive advantage from active co-operation with its established suppliers in terms of innovation and product development.

Ethical Responsibilities

The Group continues to take its ethical responsibilities very seriously. A leading member of the Ethical Trading Initiative ("ETI"), the Group is committed to adopting the ETI Base Code on a progressive basis throughout its supply chains with specific focus on China and India. This code is based on International Labour Organisation conventions and is widely acknowledged as a model code of labour practice. The Code can be found on the ETI website at www.ethicaltrade.org.

As well as adopting the ETI Base Code, the Group is also committed to monitoring and improving ethical standards in its supply chain, assessing the impact of its core business activities on labour standards, reporting annually to the ETI on progress and participating in ETI projects. The Group continues to work with suppliers and its full time social auditor to verify working practices and ensure that the Base Code is applied within the supply chain. Marshalls' ethical standards support its brands and the Group's ability to compete, particularly in the public arena.

The Group has reviewed its policies during 2010 in preparation for the implementation of the UK Bribery Act, and has risk-assessed its business activities in this context. Systems and procedures are in place and will be developed further to ensure that the requirements of the Act are met.

After being the first in its Sector to become a member of the ETI, Marshalls was the UK's first heavyside materials manufacturer to be accepted into the prestigious UN Global Compact ("UNGC") – the world's largest corporate citizenship and sustainability initiative.

The UNGC is a framework for businesses that are committed to aligning their operations and strategies with the ten universally accepted principles in the areas of human rights, labour, the environment and anti-corruption. As the world's largest global corporate citizenship initiative, the UNGC is concerned with demonstrating and building social the legitimacy of business and markets. All signatories of the UNGC must submit an annual Communication on Progress report ("COP"). Marshalls' first COP, published in 2010, was attributed 'notable' status by the UN – an accolade awarded to only 10 per cent of COPs worldwide.

Marshalls has addressed human rights issues by focusing upon the UNGC labour principles. After dedicating time, resources and investment to highlight issues of child and slave labour in Indian quarries, Marshalls is committed to increasing its focus on human rights and expanding its knowledge and influence.

2010 saw the start of a four year Human Rights Impact Assessments ("HRIA") programme. This first year is focussed upon assessments in the quarries in Kota, Rajasthan, while 2011 will concentrate on the manufacturing process in China, and 2012 will look at other countries from which Marshalls sources product to a lesser extent. The final year will see a HRIA in the UK.

The Environment

Marshalls is committed to assessing and managing the environmental impacts of all its operations. Further details are set out in the Environmental Report on pages 33 to 39.

The Community

The Group continues to be actively involved in programmes to promote good community relations with the focus on employees being a part of the community in which they operate and being empowered to engage in activities they care about through volunteering and community projects. In 2010, manufacturing sites continue to work closely with their local communities, as part of the Group's commitment to making a positive contribution to the local community. During the year, the Group made charitable donations of £49,096 (2009: £41,574). During 2010, Marshalls' employees also donated £28,422 (2009: £27,991) to charities throughout the UK through payroll giving.

Marshalls continues to support the Royal Horticultural Society's Campaign for School Gardening engaging children in the world of horticulture and basic landscape design. Marshalls has built on its partnership with Living Streets by getting involved in Walk to Work and Walk to School weeks – national campaigns to highlight the role that walking can play in bringing some much-needed activity into our daily lives. Marshalls joined Living Streets' Walk to School campaign which saw children from across the UK and in over 40 countries worldwide celebrate the benefits of walking to school and encouraging children to engage in more physical activity. These initiatives align with the Group's brand values and its focus on innovation.

Employees

All Marshalls' employees are encouraged and expected to adhere to the Group's Statement of Values and Principles. The statement includes guidance on business practice, employee

Marshalls Playpave, Milldown School

relations and equality of opportunity and is subject to regular review to ensure that it continues to set stretching standards in terms of excellence, leadership, ownership, trust, honesty and integrity. There is also a published process (the Serious Concerns Policy) through which employees can raise, in confidence, serious concerns about possible improprieties.

The people at Marshalls are key to the success of the organisation, and Marshalls recognises and appreciates diversity within its workforce and the wider community. Marshalls is committed to promoting and maintaining a working environment where people are treated with respect and where individual talent is recognised and valued, and to providing training designed to raise levels of awareness and sensitivity to matters of equality and dignity at work. Marshalls' aim is to implement fair and merit based employment policies and to adhere to relevant legislation as the minimum acceptable standard. This includes compliance with the provisions of the Equality Act 2010, which harmonises and strengthens previous discrimination based legislation to provide a simpler and more consistent framework for the effective prevention of discrimination against individuals with protected characteristics. In particular, the Group welcomes and gives full and fair consideration to applications from individuals with recognised disabilities and will ensure they are provided with equal opportunity for employment and career development. Wherever reasonably practicable, training is offered and adjustments are made to ensure that disabled employees or those who become disabled are not disadvantaged in the workplace.

Marshalls operates a growing framework of engagement initiatives introduced to develop the Group's ability to respond to the needs and aspirations of its employees. The financial results of the Group, and reports on the Company's performance, are communicated to employees through an internal web site, notice boards and regular briefings. There is also an employee share purchase plan that allows employees to purchase the Company's shares through a monthly contribution from salary. In excess of 95 per cent of active pension scheme members opted to join the newly launched, salary sacrifice based "SmartPension" offer in late 2010. This provides the opportunity for financial savings both to employees and the employer, whilst maintaining pension benefits to members.

Marshalls offers a Childcare Voucher Scheme and a 'Cycle to Work' Scheme to employees, both of which have been welcomed by participating employees. These form part of Marshalls' 'Options' platform, which serves to improve engagement, through the offer of a wide range of employee-focussed benefits and which has experienced an enthusiastic take-up since its introduction in the first half of 2010.

The Group also launched its own employee survey – Pulse! – during 2010 and this will be continued throughout 2011 and beyond, with a view to establishing a base line of employee opinions, ideas and suggestions, which can be measured and developed over time.

The emphasis on greater engagement with employees is further supported by the development of employee 'Ambassadors' from across the business, designed to provide touch points for communication and the interchange of views and ideas on a wide range of issues.

The Group continues to encourage greater flexibility of working practices amongst employees by inviting applications from individuals who wish to propose alternative working patterns. Such applications are given proper consideration and implemented wherever practicable.

Throughout 2010, a number of joint working parties comprising management and elected representatives have successfully focussed on a range of issues, designed to clarify and reinforce relationships with recognised trades unions and their members. These include the structure and remit of the Group's National Forum negotiating arrangements, the joint lay–off agreement originally struck in 2009 and a joint approach to raising awareness of the dangers of bullying and harassment at work, under the banner of 'Dignity at Work', which will be communicated during 2011.

The Group's collectively negotiated terms and conditions of employment, including pay rates, have been successfully concluded on a multi-year basis with Unite and the GMB trades unions, providing stability and clarity through to the end of 2012.

Training and personal development also continues across the Group with initiatives in place designed to identify and nurture potential, reinforce the application of consistently good management practices and provide opportunities for succession into more senior roles. There is a continuous programme across Group sites to support the development of Marshalls' employees through NVQ accreditation.

Health and Safety

The improvement of both the Health and Safety Management System and annual Health and Safety Performance remain key priorities that are fundamental to the success of the business.

Stone sculptures with Michael Disley

The Safety, Health and Incident Prevention ("SHIP") teams, consisting of both employee representatives and managers, are the cornerstone of the safety management systems at site level, and have operated throughout the year. Over recent years, the Group's operating sites have been encouraged to implement Integrated Management Registration systems accredited by the British Standards Institution ("BSI") incorporating accreditation to OHSAS (Occupational Health and Safety Accreditation Standard) 18001, and the Company remains committed to the implementation of BSI accredited Integrated Management Registration throughout the whole Group. At the end of 2010 the amount of production tonnage covered by systems which include accreditation to BSI-OHSAS (Occupational Health and Safety Accreditation Standard) 18001 was 92 per cent (2009: 93 per cent). This change is due to the closure of two accredited sites that were still operating in early 2009.

Manual handling continues to be the Group's major health and safety risk and the policy of eliminating manual handling activities wherever practicable remain unchanged. The provision of both general and targeted health and safety training to employees at all levels continued throughout the year. In 2010, training for employees driving company cars and commercial vehicles on company business was a key component of the training programme. In addition the existing suite of monthly safety tool-box talks for production operatives was supplemented by additional talks on environmental and quality issues, which now gives coverage of all three topics that make up the integrated management system.

The Group's accident performance is monitored by the Board on a monthly basis. The overall rate of workplace accidents within the Group, when measured over a 5 year period, has continued to fall. The total number of accidents occurring in 2010 was 11 per cent lower than in 2009, and this figure has shown an overall reduction since 2000 of 70 per cent by the end of 2010.

The Group's Health and Safety target is to reduce the number of reportable and lost time accidents by 10 per cent year on year. The number of injury accidents reportable to the Health and Safety Executive ("HSE") under the Reporting of Injuries, Diseases and Dangerous Occurrence Regulations ("RIDDOR") fell to 44 (2009: 53), a reduction of 19 per cent. In addition, lost time accidents ("LTAs") fell by 27 per cent (2010: LTAs 75; 2009: LTAs 103) and the number of days lost reduced by 42 per cent (2010: days lost 692; 2009: days lost 1,202). This is an excellent outcome, and the Group intends to build on this success to achieve further improvement in future. Under the RIDDOR classifications, 5 of the 44 reported accidents were classified as "major" (2009: 2) which, when multiplied by the slightly lower headcount in 2010, suggests a decline in health and safety performance for this category. However, on investigation, this was primarily due to the way the classification is applied. None of the incidents involved long term injury to the employee involved, and the Group has taken measures to protect against further risk in all cases.

The Group continues to strive to improve the quality and safety of the working environment for employees. Marshalls remains committed to meeting the highest safety standards for all its employees, and to reinforcing and developing its safety processes, with a view to continuing the long term improvement trend by a further year-on-year reduction of 10 per cent against all targets in 2011.

Accidents and incidents (rate per 1,000 employees)	2005	2006	2007	2008	2009	**2010**
Major injury	2.7	2.9	4.2	1.1	0.8	**2.0**
Injury resulting in over 3 absence days from work	21.9	18.5	13.5	18.0	20.6	**16.3**
All RIDDORS	24.6	21.4	17.7	19.1	21.4	**18.4**
Average UK headcount	2,884	2,746	2,804	2,774	2,464	**2,391**

Cromwell Paving, Knaresborough, North Yorkshire

Environmental Report

"As a business, we aim to set ourselves apart in all that we do, and this includes leading the way on social, environmental and economic management. Sound environmental management and behaviours are increasingly important for customers and end users of our products. By reducing the environmental impact of our activities, managing our operations in a sustainable way, and seeking innovation in our use of energy and materials, we aim to improve overall business efficiency, build on positive customer and supplier relationships and reinforce the core values connected with "creating better landscapes."

In compiling this Environmental Report, it is evident that some of the current measures are sensitive to significant changes in external climatic or economic conditions or the product mix demanded by our customers. The current data set masks the underlying reality that the Group continues to make good progress with respect to minimising our environmental impact. To correct this anomaly the Group will undertake an exercise, during 2011, with the specific objective of refining the environmental measures and their reporting.

Board Responsibility

David Sarti is the Director responsible for the Environmental Performance of the Group. The Group's Environmental Policy is approved by the Board and is reviewed at least annually. The full text of the Policy can be found on the Group's website www.marshalls.co.uk/sustainability.

Environmental Policy - Key Features

- The Group has a commitment to achieving the highest standards of environmental performance, preventing pollution and minimising the impact of its operations.
- All operations should meet or exceed the requirements of legislation and applicable best practice. Where no legislation exists, best practice will remain an integral part of Marshalls' business strategy.
- The Group is committed to considering the environmental impacts associated with its products throughout their life cycle.
- Policy is supported by monitoring and measuring environmental performance, using appropriate external guidelines wherever practicable. Operating sites have assessed the environmental aspects of their activities, and objectives and targets have been set aimed at improving the overall environmental impact of those activities which are reviewed on at least an annual basis.
- Marshalls will continue to raise environmental awareness within the Group through the development and training of its employees and will communicate openly and consult with customers, suppliers and other stakeholders on relevant environmental matters.
- Marshalls strives to conserve natural habitats and create additional areas of biodiversity value, and participates in benchmarking biodiversity at suitable operational sites. The Group also recognises the need for sympathetic restoration and after-use of quarry and other operational sites.
- Marshalls considers the character of the local environment and the concerns of the local community and other stakeholders in relation to its activities.

Environmental Management

Marshalls' plan is to have 90 per cent of its production tonnage manufactured at sites operating a Management System to Publicly Available Specification 99:2006 ("PAS 99") "Specification of Common Management Systems Requirements as a Framework for Integration" by 2012. During the year 24 sites (2009: 25) were operated to PAS 99 specifications, representing 85 per cent (2009: 85 per cent) of the Group's manufacturing output.

By the end of 2010 the Group had 52 operational* sites (2009: 54). The net reduction of 2 sites includes a new Premier Mortars site and an additional operational quarry.

Of these sites:

42 (2009: 42) had ISO 9001:2000 Quality Management Systems in place representing 97 per cent of the Group's manufacturing output;

30 (2009: 28) had ISO 14001:2004 for Environmental Management Systems in place representing 90 per cent of the Group's manufacturing output; and

31 (2009: 30) had OHSAS 18001:1999 for Health and Safety Management Systems in place representing 92 per cent of the Group's manufacturing output.

In addition to these, the Group also had PAS 99 management systems in place at its Group Laboratory and Marketing Support Department.

* Operational is defined as a site with production output

Environmental Impact

The business set new KPIs for 2010 designed to increase the accuracy and measurability of its environmental initiatives while also improving performance. The KPIs referred to in this report are consistent with those used in previous financial years. Explanatory notes have been included with the charts.

While there has been a lot of work at many sites, it is disappointing that the key environmental measurements illustrated by the charts in this report suggest that this had little positive impact in 2010. The Group has investigated the reasons for this and provided an explanation wherever possible, and a series of actions are planned to improve performance in 2011. Further information on this and the Group's activities in support of its Corporate Responsibility agenda will be published in the Corporate Responsibility Report at the half year 2011.

Carbon

Target – to reduce our absolute CO_2 consumption in line with Government targets (34 per cent by 2020 and 80 per cent by 2050).

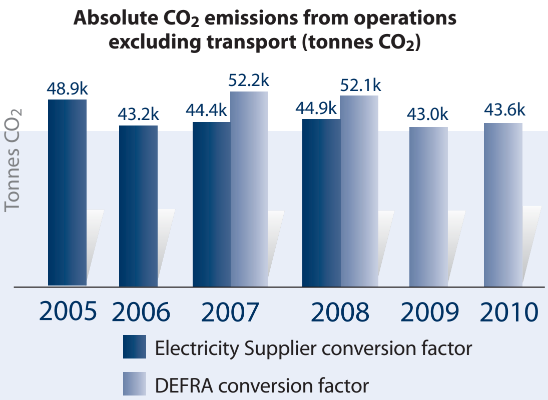
Marshalls Energy and Climate Change Policy was approved by the Board during the year, which confirms the Group's commitment to reducing the CO_2 impact of its business activities.

The Group has complied with its legal obligation to register as a participant in the Government's Carbon Reduction Commitment Energy Efficiency Scheme ("CRC") and is collecting data to complete the required Annual and Base Line Reports for the period April 2010-March 2011. The Group achieved The Carbon Trust Standard in 2009 and is investing in Automated Meter Reading ("AMR") on its natural gas supply to improve the accuracy of its reporting.

CARBON TRUST STANDARD
REDUCING CO2 YEAR ON YEAR

The business KPIs are aligned to CRC by measuring energy at both absolute and relative intensity levels and the business remains committed to reducing energy use on both these measures. The Group reports on CO_2 emissions from its energy use which represents the vast majority of its greenhouse gas emissions. The factors used to convert fossil fuel usage to CO_2 emissions have been taken as the latest available from the DEFRA website. The KPIs include an aim to reduce the absolute CO_2 emissions to meet the Government's target of an 80 per cent reduction by 2050. The Group recognises that renewable energy will be required to achieve the latter and is currently investigating the use of wind, photovoltaic and biomass options.

The chart below illustrates the Group's absolute CO_2 emissions in tonnes, excluding transport activities, achieved between 2005 and 2010.



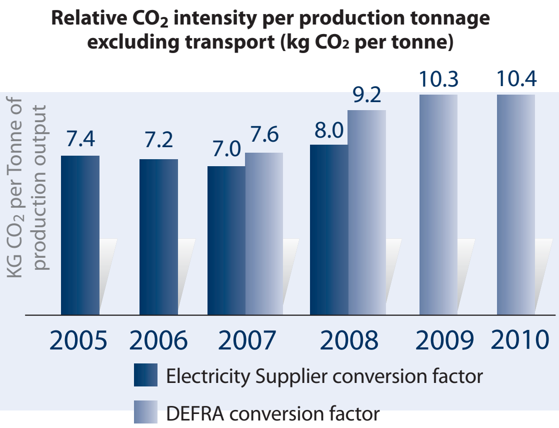
The main reason for the slight rise in absolute CO_2 on similar production levels to 2009 was the winter weather, increasing the heating requirement during January, February, November and December. Energy efficiency measures continue and all sites have trained energy champions and energy reduction plans. Awareness of energy costs and CRC requirements has been raised through communication with all operations management teams to help with the continuous improvement of energy reduction.

The Group took advantage of energy saving opportunities in its natural stone operation with funding from the Carbon Trust and the Aggregate Levy Sustainability Fund.

A project aimed at reducing the carbon intensity of the Group's heating systems, partially funded by CO_2 Sense Yorkshire, progressed during 2010 with a full scale site trial anticipated in 2011.

The relative energy intensity of production output, excluding transport, has increased to 10.4 kg CO_2 per tonne produced. Factors that affected this measure in 2010 include more heating needed in periods of extremely cold weather, and an increase in the sales mix in favour of 'value-added' products which by their nature of requiring some secondary processing require more energy to manufacture.

The chart below illustrates the Group's CO_2 intensity emissions as a proportion of production output, excluding transport activities, between 2005 and 2010.



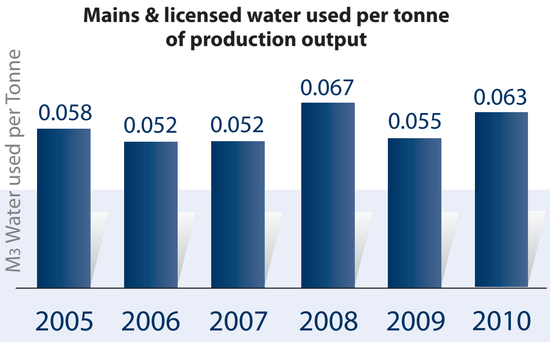
The Group voluntarily continues to submit data to the "Carbon Disclosure Project". The Group reported 65,119 tonnes of CO_2 for the year 2009 (2008: 75,032 tonnes amended for revised DEFRA emission factor). This data includes scope 1 and 2 emissions as defined in the Greenhouse Gas Protocol ("GHG Protocol"). The proportion of the CO_2 emissions from transport was 33 per cent (2009: 34 per cent).

Water

Target – reduce use of water from mains and licensed boreholes to 0.05m3 per tonne of production by 2015.

The Group understands the future value of water. The business has demonstrated a commitment to water harvesting and recycling on numerous sites and utilises quarry water where appropriate in its operations.

The chart below illustrates the Group's water performance 2005-2010.



The rise is mainly due to changes in the mix of products. Increased demand for washed aggregates from a single quarry accounts for 70.1 per cent of this increase.

There was one prosecution during the year against the Group relating to an incident that occurred in 2008. The offence involved a discharge of quarry water containing naturally occurring suspended solids into a local watercourse on a single occasion. The discharged water would normally have soaked into the ground under a process permitted by the Environment Agency, but on this occasion it flowed along tracks created by an unknown vehicle into the nearby stream. There was no demonstrable environmental damage and the business co-operated fully with the Environment Agency, taking immediate action to prevent any recurrence. A fine of £3,000 was levied. The Group takes water management very seriously and remains committed to complying with applicable environmental regulatory standards relating to the management and discharge of water.

Transport

Target – to meet the challenge of reducing emissions without affecting customer service

The Group continues to undertake the majority of its haulage in-house and the in-house fleet continues to be modernised with the most efficient vehicles available. More data on vehicle efficiency is now collected through an in-house system called "Veloxia", including miles per gallon ("mpg"), percentage idling time and optimum revolutions per minute ("rpm"). This has allowed targeted driver training to reduce fuel costs and carbon emissions.

Marshalls continues to work on reducing emissions from large goods vehicles ("LGVs"). A trial to remap the engine management systems is being progressed on 4 vehicles. The purpose of this is to increase torque at lower rpm, with the aim of improving fuel consumption. The target is a 10 per cent improvement in mpg which would save cost on fuel and generate a reduction in carbon. Initial results are encouraging and the trial is planned to be completed by end of March 2011.

The Group is about to introduce a more flexible fleet of vehicles that can deliver smaller loads and reduce freight mileage.

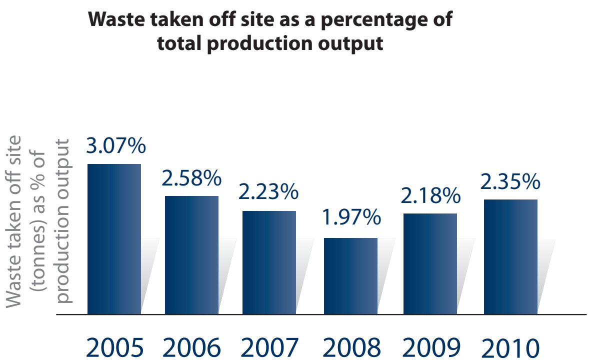
The Group also uses alternative methods of distribution, particularly rail transport, for example in deliveries for the Olympic project in London.

Waste Reduction

Target – reduce by 3 per cent the total waste to landfill per tonne of production output per annum over a three year rolling average.

The Group has continued to measure the amount of waste including material for recycling leaving site as a percentage of total production output. The business is focussed on waste reduction and where it generates waste it investigates the opportunity for recycling this within its site.

The chart below illustrates the Group's off-site waste performance 2005-2010.



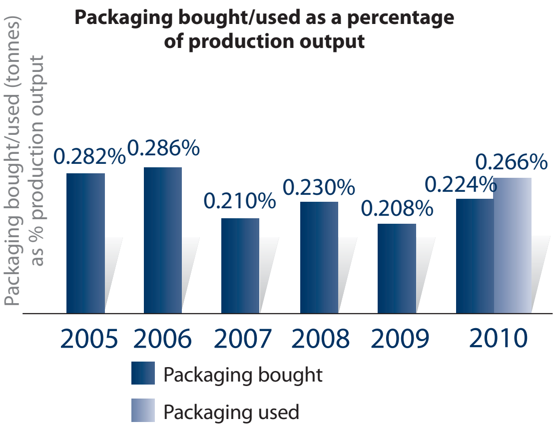
This chart does not differentiate between waste leaving site for reuse/recycling and waste leaving site for landfill. The absolute total waste for the year was down by 10,000 tonnes; however the type of waste generated from specific factory refurbishments resulted in more waste leaving site and an increase going to landfill. In 2010, 91.3 per cent of waste was recycled or reused (2009: 93.6 per cent), with 8.7 per cent going to landfill (2009: 6.4 per cent). The slight increase in waste leaving site as a percentage of production tonnage is in part due to the mix of product manufactured during 2009, with increased levels of secondary production processes generating waste which could not be recycled on site. The Group has also improved its data collection procedures.

Packaging

Target - reduce by 2 per cent per annum, over a 3 year cycle, while ensuring that the pack and product safety is not compromised.

The Group is now reporting the packaging used rather than packaging bought. This aligns with the duty to report under the Producer Responsibility Obligations (Packaging Waste) Regulations.

The chart below illustrates the Group's packaging performance 2005-2010.



The difference in the figure reported for packaging used rather than bought is related to imported product, where the Group does not buy the packaging directly but it must still be included in the "used" data for compliance with the Packaging Waste Regulations, which better reflects the environmental impact. This measure is affected by product mix, so a reduction can be achieved by selling a higher volume of those products that have less packaging. The Group uses packaging only to the extent appropriate, for example, to ensure safe handling, storage and transport of its products and to minimise damage to the product and hence waste. In addition, packaging may be used to provide health and safety information to prospective users of the products and instructions on installation. Packaging principally comprises timber pallets and polythene.

The Group has worked with suppliers to hold packaging centrally for site call-off rather than at each site, thereby reducing the stock we hold and therefore the amount bought. Also the business has invested in packaging lines that allows for certain products to be 'void' packed thereby eliminating the need for a pallet.

During the year the Group published a Timber and Paper Policy and continues to monitor carefully the sourcing of timber by its timber pallet suppliers. The Group's pallet suppliers have become FSC accredited for the supply of pallets to Marshalls.

Marshalls Working with "Incredible Edibles" in Todmorden

Suppliers and Contractors

The Group has a Procurement Policy that recognises the risks of procuring from companies that 'wilfully and avoidably damage the environment'. This policy was updated during the year to include guidance on ethical trading, responsible sourcing and the prohibition of bribery and corruption. The Group continues to work with its key suppliers to ensure they have appropriate Environmental Management Systems in place. The Group also works with suppliers to develop environmental best practice standards and to share the benefit of environmental improvements. The Group has completed a database on the management systems held by its suppliers in readiness for its Responsible Sourcing initiative. The Group continues to perform supplier audits where a significant risk is recognised.

Environmental Impact of Products

The Group maintains its policy of producing products intended for a long life with low maintenance. Its project to measure the carbon footprints of its product range using the Publicly Available Specification 2050:2008, 'Specification for the assessment of the life cycle greenhouse gas emissions of goods and services' methodology began in 2007 and has continued throughout 2010. Marshalls now leads the world in the number of its products (over 2,000) having a measured carbon footprint, all of which have been verified by The Carbon Trust's Carbon Footprint Company. The data gained is expected to enable the business to focus on energy savings throughout its supply chain. The results are available online for our customers to use in their selection of most suitable product for their project.

The Group's products are considered to have low environmental risk and in the majority of cases are readily re-usable and recyclable at the end of their life.

Marshalls is engaged with the concrete industry to promote the benefits of its products in response to the Government's Strategy for Sustainable Construction and is a signatory to the Strategic Forum for Construction's Construction Commitments.

Sustainability

The Group has a sustainable business plan and has set KPIs for the key areas of this plan. The plan addresses economic, social and environmental aspects of Marshalls' operations underpinned by development of management systems recognised by an independent third party ("BSI").

The Group publishes targets, progress and data on its website at www.marshalls.co.uk/sustainability to communicate its agenda on the triple bottom line of Environmental, Social and Economic issues. The aim is to have a platform that allows interested stakeholders access to the latest information on our activities.

Marshalls is an active member of the British Precast Concrete Federation Sustainability Committee and is a signatory of the Precast Sector Sustainability Charter.

Land Management

During 2010 all development projects except one were within existing Marshalls' sites, and the exception was located on brownfield land.

Environmental Awareness and Training

The Group recognised the need to raise environmental awareness and competencies with its employees, and successfully completed a series of Institute of Environmental Management and Assessment ("IEMA") Foundation Certificate in Environmental Management courses for plant supervisors, managers and those with specific environmental responsibilities.

Specific energy management training was provided by the Carbon Trust in order to provide Energy Champions with the requisite knowledge to progress specific energy consumption reports and energy saving initiatives at site level.

All employees, who drive on Company business, received safe and 'green' driver training. High mileage employees were identified and received a Smarter Driver training session delivered by the Energy Saving Trust, and funded jointly by the North West Regional Development Agency and the Department for Transport. The results indicated a potential saving equating to 1 tonne of CO_2 per driver per year.

The existing Employee and Contractor Handbooks have been updated to include more detailed environmental information and it is planned that during 2011 these will be delivered to those working for, and on behalf of, the Group. Employees will also receive Toolbox Talk training on a range of environmental topics.

Biodiversity

Marshalls continued to work towards its aims of having biodiversity action plans ("BAP") at all appropriate sites by 2012. The Group achieved a third Wildlife Trusts' Benchmark for Land Management for its operation at Fron Haul, Lloyds Quarries, in North Wales. It continues to develop its biodiversity awareness through networking and exchanging information with other organisations. As a partner in the 2010 International Year of Biodiversity Opportunity the Group organised two biodiversity open days at its Maltby site, inviting members of the local community to participate in such activities as pond dipping, flora and fauna identification and a water vole search. The data collected has helped to better understand the diversity of nature on the site and has contributed to regional biodiversity records.

Verification

This section of the Annual Report has been submitted for verification by a qualified verifier on behalf of BSI. On the basis of the work undertaken, the Environmental Report is considered to be a fair reflection of the environmental performance of the organisation during 2010 and contains no misleading information.

Bioverse Paving System, Limestone

Directors' Report - Other Regulatory Information

The Directors' Report incorporates the management report for the purpose of the Listing Rules (DTR 4.1.8R). Marshalls plc is registered with company number 5100353.

Principal Activities and Business Review

The principal activities of the Group are described in the Business Review. The Business Review, Corporate Responsibility and Environmental Reports, Corporate Governance Statement and Directors' Remuneration Report are each a part of the Directors' Report. Those matters required to be included in the Directors' Report, including the information and analysis required by Section 417 of the Companies Act 2006 to be included in a Business Review, appear in those sections of the Report. In particular:

Business Performance during 2010: A detailed review of the principal activities of the Group is contained in the Chairman's Statement on pages 4 and 5 and the Business Review on pages 6 to 24.

Key Financial and other Performance Indicators: The strategic KPIs used by the business are set out on page 8. Performance against these indicators is commented on in the Chairman's Statement, Business Review, Corporate Responsibility, and Environmental sections of this Report.

Principal Risks and Uncertainties: An indication of the main risks and uncertainties faced by the Group and its objectives and policies for the management of financial and general risk, including its use of, and policies in respect of, financial instruments and its exposure to price, credit, liquidity and cash flow risk, are set out in the Business Review on pages 21 to 24. The process for identifying significant risks and uncertainties and managing risk is in accordance with the Revised Guidance for Directors on the Combined Code issued by the Financial Reporting Council in October 2005.

Charitable and Political Donations: The Corporate Responsibility Report on page 29 gives details of the Group's policy and information on charitable donations. The Group has made no donations during the year to any political party or political organisation or to any independent election candidate, whether in the European Union or elsewhere (2009: nil).

Environment and Community: Information about environmental matters and the impact of the Group's business on the environment is given in the Environmental Report on pages 33 to 39. The Group's approach to social and community matters is described in the Corporate Responsibility Report on pages 27 to 32.

Employees: The Company's policies in relation to disabled employees and employee involvement are explained in the Corporate Responsibility Report on pages 27 to 32.

Corporate Governance: Details of the Group's policies in relation to Corporate Governance and how they are applied are set out on pages 43 to 50.

Key Relationships: The Business Review on pages 6 to 24 includes information about persons with whom the Group has contractual or other arrangements that are essential to the Group's business.

Group Results and Group Events since 31 December 2010: The Consolidated Income Statement for the year ended 31 December 2010 is shown on page 74. Details of any important Group events and developments since the financial year ended on 31 December 2010 are included in the Business Review on pages 6 to 24.

Dividends

The Board is recommending a final dividend of 3.50 pence (2009: 3.50 pence) per share which, together with the interim dividend of 1.75 pence (2009: 1.75 pence) per share, makes a combined dividend of 5.25 pence (2009: 5.25 pence) per share. Payment of the final dividend, if approved at the Annual General Meeting, will be made on 8 July 2011 to shareholders registered at the close of business on 10 June 2011.

The dividend paid in the year to 31 December 2010 and disclosed in the Consolidated Income Statement is 5.25 pence (2009: 3.05 pence) per share being the previous year's final dividend of 3.50 pence (2009: 1.30 pence) per share and the interim dividend of 1.75 pence (2009: 1.75 pence) per share in respect of the year ended 31 December 2009 and paid on 3 December 2010.

(The 2009 dividend figure was adjusted to reflect the "bonus factor" inherent in the Rights Issue in June 2009).

Share Capital and Authority to Purchase Shares

The Company's share capital at 1 January 2010 was 199,378,755 Ordinary Shares of 25 pence. There has been no change between 31 December 2010 and 11 March 2011. Details of the share capital are set out in Note 21 on page 110.

The Company held 2,425,000 Treasury Shares on 31 December 2009, and made no sales or purchases of Treasury Shares during the year or in the period up to 11 March 2011. Save for the Treasury Shares and some of the shares held by the Marshalls plc Employee Benefit Trust (the "EBT") as set out below, the Ordinary Shares of the Company carry equal rights to dividends, voting and return of capital on the winding up of the Company, as set out in the Company's Articles of Association. There are no restrictions on the transfer of securities in the Company and there are no restrictions on any voting rights or deadlines, other than those prescribed by law, nor is the Company aware of any arrangement between holders of its shares which may result in restrictions on the transfer of securities or voting rights, nor any arrangement whereby a shareholder has waived or agreed to waive dividends (other than the EBT).

The EBT holds shares in the Company on trust for employees (Investment Shares) and also purchases shares from time to time to satisfy awards granted to Directors and Senior Executives (Matching Shares and Performance Shares) subject to the achievement of performance targets under the Marshalls plc Long Term Incentive Plan (the "LTIP"). At 31 December 2010 the EBT held 1,548,380 Ordinary Shares in the Company (2009:1,366,758 shares) of which 643,950 represented Investment Shares beneficially owned by LTIP participants, with the balance held in respect of future Matching and Performance Share Awards. Details of outstanding awards under the LTIP are set out in Note 19 on pages 105 to 109. The EBT has waived its right to receive dividends on shares that it holds beneficially in respect of future awards. The Trustee of the EBT exercises any voting rights on such shares in accordance with the Directors' recommendations.

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

At the Annual General Meeting in May 2010 shareholders gave authority to the Directors to purchase up to 29,523,367 shares representing approximately 14.99 per cent of the Company's issued share capital in the Company in the market during the period expiring at the next Annual General Meeting at a price to be determined within certain limits. No Ordinary Shares in the Company were purchased during the year or between 31 December 2010 and 11 March 2011 under this authority, which will expire at the Annual General Meeting in May 2011. The Directors will seek to renew the authority at that meeting.

Contracts of Significance and Related Parties

There were no contracts of significance between any member of the Group and (a) any undertaking in which a Director has a material interest, or (b) a controlling shareholder (other than between members of the Group). There have been no related party transactions between any member of the Group and a related party since the publication of the last Annual Report.

Articles of Association

The Company's Articles of Association give powers to the Board to appoint Directors. Newly appointed Directors are required to retire and submit themselves for re-election by shareholders at the first Annual General Meeting following their appointment. Specific rules regarding the re-election of the Directors are set out in the Corporate Governance Statement on pages 43 to 50.

The Board of Directors may exercise all the powers of the Company subject to the provisions of relevant laws and the Company's Articles of Association. These include specific provisions and restrictions regarding the Company's power to borrow money. Powers relating to the issuing and buying back of shares are included in the Articles of Association and such authorities are renewed by shareholders each year at the Annual General Meeting.

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

Directors

The names and biographical details of each of the Directors who served during the year are set out on pages 25 and 26. The rules on appointment, retirement and removal of directors under the Company's Articles of Association, and the powers of the Board, are set out in the Corporate Governance Statement on pages 43 to 50. All currently serving Directors will offer themselves for election or re-election at the next Annual General Meeting of the Company.

The information required by the Combined Code in relation to Directors' service contracts, compensation, Board performance and attendance is contained in the Corporate Governance Statement on pages 43 to 50.

Directors' Indemnities

The Company has granted indemnities to each of its Directors in respect of their performance of their duties as a Director of any member of the Marshalls group of companies. In addition, the Company has granted indemnities to Graham Holden and David Sarti in respect of their participation in and/or membership of the governing bodies of certain third party trade representative organisations on behalf of the Company. The indemnities are limited to what is permitted by law and the Company's Articles of Association and copies are available for inspection at the Registered Office of the Company. There were no other such indemnities in force during the year.

Directors' Interests

Details of Directors' remuneration, interests in the share capital (or derivatives or other financial instruments relating to those shares) of the Company and of their share based payment awards are contained in the Directors' Remuneration Report on pages 51 to 67.

Value of land and buildings

In the opinion of the Directors, the market value of the Group's interests in land and buildings at 31 December 2010 remains in excess of the book value.

Payments to Creditors

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 2010 was 53 days (2009: 54 days).

Substantial Shareholdings

As at 11 March 2011, the Company had been notified of the following disclosable interests of 3 per cent or more in its voting rights.

	%
Majedie Asset Management	9.7
Aviva Investors	8.9
M&G Investment Management	7.7
JO Hambro Capital Management	5.7
AXA Investment Managers	3.8
Legal & General Investment Management	3.4

Chairman’s introduction

Marshalls is committed to business integrity, high ethical values and professionalism in all its activities. As an essential part of this commitment, the Board supports the highest standards in corporate governance, which it regards as fundamental to the effective performance of the business. The Board acknowledges that it is accountable to shareholders for corporate governance matters, and seeks to promote consistently high standards of governance throughout the Group which are recognised and understood by all.

This report has been prepared in accordance with the principles of the Combined Code on Corporate Governance published by the Financial Reporting Council in June 2008 (the Combined Code) which the Board fully supports. The Board has also anticipated and adopted some of the revised provisions that will apply to the Group’s accounting period beginning 1 January 2011 under the UK Corporate Governance Code published in June 2010 (the UK Code), and this report includes reference to those provisions of the UK Code that have already been adopted by the Board. In particular, all members of the Board will stand for election or re-election at the next Annual General Meeting in 2011.

Andrew Allner
Chairman

Statement of Compliance with the Code

Throughout the year ended 31 December 2010 the Company has complied with section 1 of the Combined Code (the “Code”) in all material respects.

The paragraphs below, together with the Reports of the Audit, Nomination and Remuneration Committees on pages 51 to 71, describe how these principles are applied within the Company.

Directors

Code Principles A.1, A.3: The Board, its balance, function and independence

The Board comprises a Non-Executive Chairman, three Executive Directors and three Non-Executive Directors who are equally responsible for the proper stewardship and leadership of the Company. The biographical details of the Directors are on pages 25 and 26. The independence of the Non-Executive Directors has been determined by the Board in accordance with the principles set out in the Code, in particular Principle A.3, and takes account of guidance published by bodies representing investor groups. The Board considers it is of sufficient size for the discharge of its duties and that the balance of skills and experience is appropriate for the requirements of the business.

Board members, in particular the Chairman and the Non-Executive Directors, are expected to ensure that other commitments do not affect the effectiveness of their contribution or the time available to the Company, and to advise the Company of any change. The process for recording and managing conflicts of interest is explained under “Conflicts of Interest” on page 45.

There is a written Schedule of Matters Reserved for the Board, including approval of the Company’s risk management processes and the approval of Group policies in relation to health and safety, social and community matters, the environment and ethical trading.

The Board, at its meetings, reviews the financial results of the Group. A detailed business plan and annual budget is prepared for the business and is compared in detail with the actual results on a monthly basis. 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. The Board also reviews performance against other key indicators. Medium and long-term strategy is frequently discussed, and meetings are held with members of senior management on a regular basis to update the Board on business and strategic issues.

The Board has delegated specific responsibilities to Board Committees, including the Audit, Remuneration and Nomination Committees. The Board also appoints Committees for particular purposes as necessary. For example, during the year, Board Committees were established to approve dividend payments and preliminary and half-yearly announcements.

The Group's reporting structure below Board level is designed so that all decisions are made by the most appropriate people in a timely manner. The Directors and senior management are tasked with the delivery of targets approved by the Board and for the implementation of Group strategy and policy across the Group. Management teams report to members of the senior executive committee. This committee currently consists of seven senior managers, including the three Executive Directors. Business issues considered by the senior executive committee are reported by the Executive Directors to the Board.

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.

In addition, Executive Directors attended Committee meetings during the year where appropriate.

There are nine full Board meetings scheduled during 2011. The Board has also scheduled separate meetings to review strategy and Board performance and objectives.

The Board has appointed a Senior Independent Non-Executive Director, Alan Coppin. He is available to shareholders if they have concerns which are not resolved through the normal channels of contact or where it would be inappropriate to raise those concerns through such channels. He is also available as a sounding board for the Chairman and an intermediary for other Non-Executive Directors. At least once a year the Chairman holds a meeting with the Non-Executive Directors without the Executive Directors being present. The Non-Executive Directors also meet without the Chairman being present, at least annually, to appraise the Chairman's performance.

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

The Board held nine meetings in 2010. The presence of Directors at Board and principal Board Committee meetings in 2010 is shown below. Among the Non-Executive Directors, only Andrew Allner served for a full 12 months in 2010.

	Board (9 meetings)	Audit Committee (4 meetings)	Remuneration Committee (4 meetings)	Nomination Committee (3 meetings)
Mike Davies	4	1	2	2
Andrew Allner	8	4	4	3
Ian Burrell	9	-	-	-
Alan Coppin	5	3	2	1
Mark Edwards	5	3	2	1
Graham Holden	9	-	-	-
Bill Husselby	6	2	2	2
Tim Pile	3	1	2	-
David Sarti	9	-	-	-
Richard Scholes	4	1	2	2

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.

Conflicts of Interest

The Board has powers to authorise and has adopted procedures for the authorisation of existing situations and for considering (and authorising where appropriate) new situations which may give rise to a conflict of interest on the part of any Director.

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

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

Code Principle A.2: Chairman and Chief Executive

The positions of Chairman and Chief Executive are held by separate individuals with a clear division of responsibilities. The Chairman is primarily responsible for the leadership and effective working of the Board and ensuring that all Directors, particularly the Non-Executive Directors, are able to make an effective contribution. He ensures that there is a constructive relationship between the Executive and the Non-Executive Directors. The Chief Executive has responsibility for all operational matters which include the implementation of the Group Strategy and policies approved by the Board. The Board has approved written Terms of Reference for the Chairman and Chief Executive.

Code Principle A.4: 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 Terms of Reference of the Nomination Committee are available on the Company's website at www.marshalls.co.uk. These Terms of Reference set out the role of the Committee and the authority delegated to it by the Board. The Company's Articles of Association set out clear powers of removal, appointment, election and re-election of Directors. The Nomination Committee Report on page 70 to 71 explains the process for nominations and succession planning in more detail.

Code Principle A.5: 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 Group's operational and financial performance, on Health and Safety, and on forward trends.

The Chairman, Chief Executive and Company Secretary ensure that newly appointed Directors receive full, formal and tailored induction on joining the Board. Newly appointed Directors are also expected to meet shareholders on request. All Directors are expected to participate in training to refresh and maintain their skills and competencies, either arranged by the Company or by the Director concerned. During the year the Company arranged briefings for Directors on health and safety matters and competition. The Company also arranges visits to operational sites around the Group in addition to the scheduled Board meetings to enable Non-Executive Directors to update their knowledge and familiarity with the Company. During 2010 as part of the induction process, new Non-Executive Directors visited a number of the Group's operational sites to meet local management and to improve their knowledge and understanding of day-to-day operational activities. The Board intends to continue its programme of site visits in 2011.

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

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

Code Principle A.6: Board Performance Evaluation

The Board considered whether to use an external assessor for its evaluation in December 2010, but in view of the Board changes during the year, a decision was taken to delay an externally led assessment in order to allow the new Board members to develop their understanding of the Group, its management and the Board's activities. The 2010 evaluation of Board performance and that of its three principal Committees was conducted using a detailed questionnaire and one-to–one confidential discussions between each of the Directors and the Company Secretary. The questionnaire included questions about the effectiveness of the Executive and the Non-Executive Directors, Board proceedings, and how Non-Executive Directors were able to develop an understanding of the views of major shareholders about the Company. The evaluation also asked Directors other than the Chairman to evaluate the performance of the Chairman.

The results of the evaluation were collated in a form which did not identify individual comments, and the collated feedback was reviewed by the Chairman and the Company Secretary, and discussed by the Board. The key themes emerging from this evaluation set the agenda for Board actions in 2011. One immediate action was the setting aside of a full day (in February) for the Board to focus on long term strategy, with a further day planned for strategy review later in the year. The evaluation also validated the results of the Board's action plan for 2010, which were believed to have improved the effectiveness of the Board. The Board will undertake a performance evaluation during 2011 and will consider whether an independent external assessor will add value to the process adopted in 2010, which all Directors regard as rigorous and stimulating.

Code Principle A.7: Re-election of Non-Executive Directors

The Company's Articles of Association provide for re-election of Directors at regular intervals. No Director may serve more than three years without retiring and being proposed for re-election. All current Directors will offer themselves for election or re-election in 2011 and their biographical details can be found on pages 25 and 26. The processes for appointment and evaluation of the Directors are set out in the Nomination Committee Report on pages 70 to 71. The current terms of appointment of Directors are set out on page 62.

Directors' Remuneration

Code Principles B.1 and B.2: Level and make-up of Remuneration, and procedure for developing policy and fixing executive remuneration packages.

The Board has delegated to its Remuneration Committee responsibility for ensuring compliance with the Code's requirements on remuneration. The remuneration policies and procedures, and details of Executive Directors' remuneration are set out in the Remuneration Report on pages 51 to 67. 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

Code Principle C.1: Financial Reporting

In presenting the Annual and Half-yearly Financial Statements the Directors seek to present a balanced and understandable assessment of the Group's position and prospects. The Directors have adopted the going concern basis in preparing these Financial Statements in accordance with "Going Concern and Liquidity Risk: Guidance for Directors of UK Companies 2009" published by the Financial Reporting Council in October 2009.

The respective responsibilities of the Directors' and the Auditors in connection with the Financial Statements are explained in the Statement of Directors' Responsibilities on pages 49 to 50 and the Independent Auditor's Report on pages 72 and 73 respectively.

Code Principle C.2: Internal Control

The Board is responsible for the Group's system of internal controls and for reviewing its effectiveness. Throughout the year under review the Board, acting through the Audit Committee, has had in place an ongoing process to meet the requirements of the 2008 Code as set out in the 'Revised Guidance for Directors on the Combined Code' published by the Financial Reporting Council in October 2005, and this has continued up to the date of this report, updated as appropriate to comply with the UK Code.

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. The Board has appointed 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 relevant senior managers. 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, giving each risk a relative weighting reflecting its potential impact on the Group. Against each such risk, the controls that exist to manage and, where possible, minimise or eliminate those risks are listed. The Risk Register helps to identify areas for action, and uses programmes including independent audit assessments that are designed to test the effectiveness of the Group's risk control systems. Information in relation to the management of risks and any changes to key risks or weighting is regularly reported to the Board. The Risk Register is reviewed by the Board and the Audit Committee at least every six months and updated to reflect changes in circumstances or priorities.

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 internal control framework governs the internal financial reporting process of the business, with checks and balances built into the system that are designed to reduce the likelihood of material error or fraud. The Report of Audit Committee, which is incorporated by reference into this Report, provides further information on the internal control and risk management systems in place in connection with financial reporting.

The Audit Committee has carried out an assessment of the effectiveness of the Group's risk management and internal control system (including its financial, operational and compliance controls and risk management systems) for the year to 31 December 2010.

Audit Committee and Auditors

Code Principle C.3: Arrangements for applying financial reporting and internal controls, and relationship with auditors

Information relating to the Audit Committee and how the Company has complied with the Code Principles regarding financial reporting and internal controls is set out in the Report of the Audit Committee on pages 68 to 69. The Terms of Reference of the Audit Committee are available on the Company's website at www.marshalls.co.uk.

Going Concern

The Chairman's Statement and Business Review on pages 4 to 24 contain information regarding the business activities of the Group and factors likely to affect its future development, its financial position, cash flows, liquidity and borrowing and the principal risks and uncertainties facing the Group. The Directors have considered this, together with all other available information, for a period of at least 12 months from the date of approval of this Report and the Financial Statements, and have concluded that although there are uncertainties generally associated with the wider economic climate there are no material uncertainties that may cast significant doubt on the ability of the Company and the Group to continue in operational existence for the foreseeable future. Accordingly, the Directors believe that it is appropriate to adopt the going concern basis in the preparation of the Financial Statements. Further details are included in Note 1 to the Consolidated Financial Statements on page 80.

Relations with Shareholders

Code Principle D.1: Dialogue with Institutional Shareholders

The Board is accountable to shareholders for the Company's continued success. The Board accordingly places great emphasis on maintaining good communications with shareholders. The Chief Executive and Finance Director meet regularly with major shareholders to discuss the Group's performance, strategic issues and shareholder investment objectives. The Company periodically arranges site visits for investors. During 2010, 97 such meetings were held, at which at least 50 institutional shareholders were represented. Reports of these meetings and any shareholder communications during the year are provided to the Board. The Board also regularly receives copies of analysts' and brokers' briefings. The Chairman is available to meet major shareholders on request to discuss governance and strategy, and when appropriate, the Non-Executive Directors will attend meetings or site visits with major shareholders. The Senior Independent Director is also available to meet shareholders separately if requested. There is a regular reporting and announcement schedule to ensure that matters of importance affecting the Group are communicated to investors.

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

Code Principle D.2: Constructive Use of the Annual General Meeting

The Notice of Annual General Meeting is dispatched to shareholders, together with explanatory notes or a circular on items of special business, at least 20 working days before the meeting. It is the Company's practice to propose separate resolutions on each substantially separate issue including a resolution relating to the Report and Accounts. It is increasingly regarded as "best practice" to put all resolutions to a poll, and the Company expects to adopt this practice for the resolutions to be put to its 2011 Annual General Meeting.

All Directors normally attend the meeting, including the Chairmen of the Audit, Remuneration and Nomination Committees, who are available to answer questions. The Board welcomes questions from shareholders who have an opportunity to raise issues informally or formally before or at the Annual General Meeting.

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

All valid proxy appointments are properly recorded and counted. After the vote is taken, information on the number of shares represented by proxy, the proxy votes for and against each resolution, and the number of shares in respect of which the vote was withheld for each resolution, are given at the meeting. The result of the vote (whether on a poll or not), together with the proxy voting information, is made available on the Company's web site at www.marshalls.co.uk.

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

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

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

Under company law the Directors must not approve the Financial Statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Parent Company and of their profit or loss for that period. In preparing each of the Group and Parent Company Financial Statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and 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 adequate accounting records that are sufficient to show and explain the Parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the Parent Company and enable them to ensure that its Financial Statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

The Directors are also responsible for preparing a Directors' Report, Directors' Remuneration Report and Corporate Governance Statement each of which complies with applicable law and regulations.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The Directors who held office at the date of approval of this Directors' Report and whose names and functions are listed on pages 25 and 26 confirm that, to the best of each of their knowledge:

(a) the Group Financial Statements in this Annual Report, which have been prepared in accordance with International Financial Reporting Standards (IFRS's) as adopted by the EU, IFRIC interpretation and those parts of the Companies Act 2006 applicable to companies reporting under IFRS, give a true and fair view of the assets, liabilities, financial position and profit of the Group taken as a whole; and

(b) the Parent Company's Financial Statements in this Annual Report, which have been prepared in accordance with United Kingdom Accounting Standards (United Kingdom GAAP) and applicable law give a true and fair view of the assets, liabilities, financial position and profit of the Parent Company; and

(c) the Business Review contained in this Annual Report includes a fair review of the development and performance of the business and the position of the Company and the Group taken as a whole, together with a description of the principal risks and uncertainties that they face.

Disclosure of Information to Auditors

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

Cautionary Statement and Directors' Liability

This Annual Report 2010 has been prepared for, and only for, the members of the Company, as a body, and no other persons. Neither the Company nor the Directors accept or assume any liability to any person to whom this Annual Report is shown or into whose hands it may come except to the extent that such liability arises and may not be excluded under English law. Accordingly, any liability to a person who has demonstrated reliance on any untrue or misleading statement or omission shall be determined in accordance with Section 90A of the Financial Services and Markets Act 2000.

This Annual Report contains certain forward looking statements with respect to the Group's financial condition, results, strategy, plans and objectives. These statements are not forecasts or guarantees of future performance and involve risk and uncertainty because they relate to events and depend upon circumstances that will occur in the future. There are a number of factors that could cause actual results or developments to differ materially from those expressed, implied or forecast by these forward looking statements. All forward looking statements in this Annual Report are based on information known to the Group as at the date of this Annual Report and the Group has no obligation publicly to update or revise any forward looking statements, whether as a result of new information or future events. Nothing in this Annual Report should be construed as a profit forecast

Annual General Meeting

The Notice convening the Annual General Meeting to be held at Birkby Grange at 10.00am on Wednesday 11 May 2011 together with explanatory notes on the resolutions to be proposed is contained in a circular to be sent to shareholders with this Annual Report.

By Order of the Board
Cathy Baxandall
Group Company Secretary
11 March 2011

Letter from the Chairman of the Remuneration Committee

Dear Shareholder,

I am pleased to report to shareholders on the aims, objectives and activities of the Remuneration Committee during 2010.

I was appointed Chairman of this Committee on my appointment to the Board in May 2010 replacing Andrew Allner upon the latter's appointment as Chairman of the Company in May 2010. Andrew Allner remains a member of the Committee, and Mark Edwards and Tim Pile were appointed to the Committee upon their appointments to the Board, while Mike Davies, Richard Scholes and Bill Husselby ceased to be members of the Committee upon their retirement from the Board.

During the year, we have as a Committee reviewed our remuneration policy as a whole, to ensure it meets the need to attract, retain and continue to motivate talented Executive Directors while recognising wider shareholder interests. We have taken account of the outcomes of the independent benchmarking reviews against suitable comparator groups carried out in 2008 and 2009, and have also conducted a detailed review of the incentive element of Executive Director packages. In our work, we have sought to reflect developing best practice in the area of remuneration, to recognise the importance of alignment with the objectives of shareholders and to encourage behaviours that will ensure the sustainability and long term health of the business and avoid inappropriate risk-taking.

The present team of Executive Directors has served the business since 2001, and this team was responsible for delivering consistent sustainable growth in profitability until the economic downturn in 2008. The market capabilities developed during this growth period have provided a strong foundation to enable Marshalls to remain profitable during the most challenging economic climate it has experienced for many years, and to focus on maintaining and developing its market-leading position so that it is well placed to return to growth in the future. In reviewing its policy, and determining remuneration for 2011, the Committee has taken the future benefit of this positioning into account as well as the wider economic conditions and pay and reward packages elsewhere in the Sector and the business.

I hope you find the report helpful and informative.

Alan Coppin
Chairman of the Remuneration Committee

Introduction

This report has been prepared in accordance with Schedule 8 Quoted Companies: Directors' Remuneration Report Regulations 2008 (the "Regulations"). The report also meets the relevant requirements of the Listing Rules of the Financial Services Authority and describes how the Board has applied the principles and complied with the provisions of the UK Corporate Governance Code relating to Directors' remuneration. As required by the Regulations, an advisory resolution to approve the report will be proposed at the Company's Annual General Meeting in 2011.

The Auditors are required to report on the 'auditable' part of this report and to state whether, in their opinion, that part of the report has been properly prepared in accordance with the Companies Act 2006 (as amended by the Regulations). The report is therefore divided into separate sections for audited and unaudited information.

Unaudited Information

The Remuneration Committee

The Members of the Remuneration Committee of the Board are identified on pages 25 and 26 of the Annual Report, and details of meetings attended during the year are on page 44 of the Corporate Governance Report.

All the members are independent and have no personal financial interest other than as shareholders in matters to be decided, no potential conflicts of interest arising from cross directorships and no day-to-day involvement in running the business.

The Remuneration Committee has formal written Terms of Reference with the full remit of the Committee role described. A copy of the Terms of Reference can be downloaded from the Company's website at www.marshalls.co.uk

The Company received advice during the year from its appointed advisors, Hewitt New Bridge Street and PricewaterhouseCoopers LLP. PricewaterhouseCoopers LLP also provided services to the Company in connection with pensions, tax and environmental matters during 2010. In determining the Executive Directors' remuneration for the year, the Remuneration Committee consulted with the Chief Executive and Company Secretary. No Director played a part in any discussion about his own remuneration.

Key Committee Activities during 2010

During 2010 the Committee met four times. The Chairman of the Remuneration Committee also held meetings with remuneration consultants. The Committee's programme of work included:

- reviewing the policy for Executive remuneration and the structure of Executive remuneration packages;
- reviewing terms of appointment for the Chairman and expenses policy;
- appointing new independent remuneration advisers to the Committee following a tendering process;
- reviewing executive incentive schemes, making 2010 awards and agreeing principles for 2011; and
- considering performance against targets for annual performance-related pay ("PRP") and LTIP awards and level of achievement/payout.

Background to the Remuneration Committee's application of its policy in 2010

There have been a number of associated general pronouncements from shareholder bodies and institutional investors clarifying their expectations for remuneration in 2010 and 2011 and a subsequent revised UK Corporate Governance Code has been issued.

In formulating the application of its policy for 2010 and future years, the Remuneration Committee has recognised the evolving landscape in remuneration developments. The Remuneration Committee also believe that many of the principles proposed by the Walker Review, UK Corporate Governance Code and by institutional shareholders and their representative bodies are already in operation or embedded within the Company's Remuneration framework, namely :

- the Terms of Reference for the Remuneration Committee include the responsibility for setting the policy on incentive reward for senior employees, including those who could have a material impact on the risk profile of the Group; and

- the Remuneration Committee has, in the design of the new Marshalls plc 2011 Performance Incentive Plan (the "PIP"), incorporated risk adjustment mechanisms to encourage consistent and sustainable levels of Company performance and to ensure, when selecting performance conditions and the level of challenge within those conditions for these incentive arrangements, that they support the long-term future of the Company. A full description of the new PIP is set out on pages 60 and 61.

In assessing the performance priorities set for annual performance-related bonus, the Remuneration Committee takes into account the general performance of the Company and the prevailing economic environment. This section of the report summarises how the performance of the Company has been taken into account when determining Executive remuneration for 2010.

The macro environment, the business background and the principal risks facing the Company are described in detail in the Business Review on pages 21 to 24.

During 2010 the Group performed strongly and experienced good sales growth year on year against the background of an unpredictable economic climate and a change of Government. However, the out-performance experienced in the second and third quarter was adversely affected by snow in January, February, November and December 2010, and this, coupled with rising fuel prices, meant that underlying profit before tax ended the year at the lower end of the target range. Consequently, 3.9 per cent (maximum 60 per cent) of annual PRP allocated to achievement of the profit-related target is payable in 2010.

The Executive Directors identified a wide range of actions in 2009 to reduce the borrowings of the business including careful control of working capital and capital expenditure and these actions were carried over effectively into 2010. Net cash flow from operating activities was maintained despite unpredictability in market activity. This strong performance on the cash targets has resulted in 34.7 per cent (maximum 40 per cent) for cash targets becoming payable under the 2010 PRP plan. Accordingly, a total annual PRP award of 38.6 per cent of basic salary (2009: 46.0 per cent) is payable to the Executive Directors. The Committee believes that it is appropriate that achievement of stretching cash targets should be rewarded in the current economic conditions. Annual PRP payments are usually made following completion of the audit and approval of the Financial Statements.

It continues to be the Committee's policy to target a remuneration package that is at around median for median performance, and around upper quartile for exceptional performance. In setting all elements of remuneration the Committee is advised by independent consultants and periodically uses data from external research into the salaries and benefits paid by companies of a comparable size and complexity to the Company. It also considers levels of increase granted to other employees within the Group.

In recognition of the challenging economic climate, at the Executive Directors' request, the Board agreed that no increase in base salary should be awarded to Executive Directors in 2010. The Group, after consultation with its employees, also agreed a pay standstill for the wider workforce in 2010, having agreed cost of living pay rises in 2008 and 2009 (for weekly and hourly paid employees only, and a pay standstill for salaried employees in 2009). For 2011, the Committee has again accepted the Executive Directors' proposal that there be no increase in Executive Directors' base salary, although the Group has recently agreed to reinstate pay increases for the wider workforce in 2011 and 2012 linked to improved productivity.

In setting its remuneration policy, the Committee is aware of the social, ethical, environmental and governance issues that face the Group and the need to motivate and manage corporate performance without the risk of inadvertently motivating irresponsible behaviour. The Committee has the discretion to structure its remuneration policy for Executive Directors to take account of these risks. The Committee is mindful of the need to avoid "ratcheting" by reference to other companies, while acknowledging that strong individual performance in challenging times should be rewarded. The Committee believes that, with the proposed changes to annual incentives which are explained below, the remuneration packages will continue to deliver a combination of shorter and longer term incentives that are aligned with the wider interests of the Company's stakeholders.

Performance Related Pay and Risk Profile

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

In applying its policy, the Committee is mindful of the Association of British Insurers' Guidelines on Responsible Investment Disclosure, and seeks to ensure that the incentive structure for Executive Directors and the wider senior executive management take account of corporate performance on environmental, social and governance issues, and will not raise environmental, social or governance risks by inadvertently motivating irresponsible behaviour. More generally, with regard to the overall remuneration structure, there is no restriction on the Committee which prevents it from taking into account corporate governance on such matters and it takes due account of issues of general operational risk when structuring incentives. Performance related pay targets are reviewed as part of the Board’s risk review processes to ensure they are consistent with the general principles of effective risk management set by the Company and do not encourage short term risk taking at the expense of long term objectives. In assessing the extent to which annual PRP and LTIP performance targets have been achieved, the audited results of the Company are used and performance criteria are independently reviewed by the Company's auditors.

The new Marshalls plc 2011 PIP has specific features to ensure that it encourages sustainable long-term performance through deferral in shares and risk adjustment.

Terminology

“PIP”	Marshalls plc 2011 Performance Incentive Plan
“LTIP”	Marshalls plc 2005 Long Term Incentive Plan
“PRP”	Marshalls plc annual performance-related bonus scheme

Challenges for 2011

The Remuneration Committee has identified the following challenges during its review of Executive remuneration in 2010 and is implementing the following solutions for 2011:

<table>
<tr><th>Element of the Package</th><th>Challenge</th><th>Solution</th></tr>
<tr><td>Base Salary and Other Fixed Elements</td><td>The fixed element of the remuneration package remains unchanged, and there will be no increase in basic salaries for 2011.
This is the third successive year in which Executive Directors’ salaries remain frozen at the levels set in 2008. The rationale for this is explained in the report.
Given the Committee’s position in relation to fixed elements of the compensation package it places greater importance on the appropriate incentive package to ensure the retention and incentivisation of Executive Directors and other senior management.</td><td>The Company has introduced the new PIP to provide an appropriate incentive (see later for details of the Plan).</td></tr>
<tr><td>Share - Based Incentives</td><td>The following table sets out the current subsisting LTIP and Matching Share Awards and the level of vesting based on the performance of the Company to the date of this Report:
<table>
<tr><th>Year of Grant</th><th>Level of Satisfaction of Performance Target</th><th>Vesting Status</th></tr>
<tr><td>2006</td><td>0%</td><td>(Lapsed)</td></tr>
<tr><td>2007</td><td>0%</td><td>(Lapsed)</td></tr>
<tr><td>2008</td><td>0%</td><td>(Lapsed)</td></tr>
<tr><td>2009</td><td>0%</td><td>(Subsisting)</td></tr>
<tr><td>2010</td><td>0%</td><td>(Subsisting)</td></tr>
</table>
The failure of historic awards to vest and the strong likelihood that the subsisting awards will also fail to vest based on performance to 31 December 2010 means that the current share incentives have little retentive and incentive effect.</td><td>The Committee is proposing to address this for 2011 using a combination of the new PIP and the Performance Share element of the existing LTIP.</td></tr>
</table>

Element of the Package	Challenge	Solution
Structure of the Incentives	The Committee has reviewed the current combination of the Group's annual performance-related pay and LTIP arrangements in the light of: • developing "best practice"; • the Walker Review; and • the objectives of the Committee. The Committee has also taken account of risks identified in the business risk reviews carried out by the Board during 2010. The Committee recognises the potential impact on retention of the lapsing of previous LTIP Matching Awards and Performance Awards, and the need to provide other challenging but achievable incentives over the medium to long term in a way that is aligned with the interests of shareholders.	The Committee has accordingly resolved to introduce the PIP, further details of which are set out later in this Report.

Remuneration Philosophy 2010 and 2011

The aim of our policy is to attract, retain and continue to motivate talented Executive Directors while aligning remuneration with shareholder interests. We achieve this by balancing a basic fixed package, which we periodically benchmark against the median of suitable comparator groups, with the opportunity to achieve upper quartile remuneration from a combination of stretching but achievable short and long term incentives.

Base salary	Annual PRP potential	Pension	Benefits in kind	Potential total short-term remuneration available	Potential annual share awards	Potential total compensation value
Median	Median	Median	Median	Median	Upper Quartile	Median to Upper Quartile
This supports the performance based culture of the Company. Fixed costs are minimised and total short-term remuneration will only reach and exceed the median if the performance-based bonus is earned for the relevant financial year.					The policy in respect of long-term incentives and potential compensation value is an extension of the policy on total short term remuneration. Executive Directors will only receive a market competitive package if the annual bonus and long-term incentives are earned.	

Comparator Group

The constituents of the Company's current Comparator Group ("CG") are drawn from the following:

- a selected peer group of companies in the FTSE Construction & Materials Sector; and
- companies of a similar size drawn from across all FTSE Sectors.

Base Salary 2010 and 2011 Policy – Median of CG

When determining the base salary of the Executive Directors the Committee would expect to take into consideration:

- the levels of base salary for similar positions with comparable status, responsibility and

skills in organisations of broadly similar size and complexity and in particular median salary levels of those comparable companies within the industry and the Comparator Group;
- the performance of the individual Executive Director;
- the individual Executive Director's experience and responsibilities; and
- pay and conditions throughout the Company.

The Committee uses comparisons with caution to avoid increasing remuneration levels without a corresponding improvement in performance. The Committee has not conducted an external benchmarking review when determining the overall quantum of fixed remuneration for Executive Directors in 2011, because no changes are proposed to this element of the package. The independent remuneration review that was conducted by Hewitt New Bridge Street in September 2009 confirmed that the total remuneration packages of the Executive Directors, including the fixed element, were broadly competitive against companies of a comparable size at that time. There will be no increase in basic salaries for 2011, meaning that Executive Directors' salaries remain frozen for the third successive year at the levels set in 2008. The Committee has agreed this in response to the request of the Executive Directors, who recognise the need for restraint in the context of pay in the wider workforce and the prevailing economic conditions in the UK affecting the business.

The Company provides standard benefits in kind for Executive Directors.

Wider workforce pay (increase as a percentage of base salaries)

	2009	2010	2011
Executive Directors	–	–	–
Salaried employees (excluding Directors)	–	–	1.5
Weekly paid Employees	4.56	–	2.0*

*Year 1 of 2-year agreement, Year 2 = 3 per cent

Annual PRP 2010
Policy – Median of CG

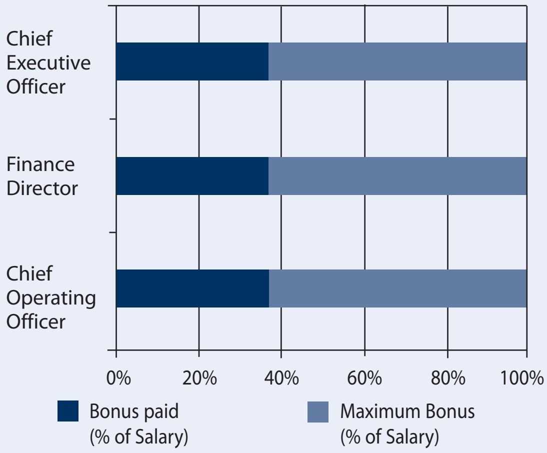
A maximum annual performance bonus of 100 per cent of basic salary for exceptional performance is payable under the Annual PRP arrangements, with on-target performance delivering approximately 27 per cent. The PRP for 2010 has been paid on the basis of the level of satisfaction of the performance targets.

The table below shows the principal performance targets used for 2010 and their percentage satisfaction.

	% of Maximum Bonus Potential Subject to Target	% Satisfaction of Bonus Target	% of Salary Payable
Profit Before Tax	**60**	6.5	3.9
Cash Targets	**40**	86.8	34.7
		Total	38.6

The cash measures in particular recognised the continued focus on strong cash management and the reduction of borrowings designed to preserve the Group's resilience and core strengths.

The overall reward achievable under the 2010 PRP scheme was also limited (as in 2008 and 2009) to a "band" set by reference to the PRP earned in respect of the pre-recession result achieved in 2007. This is designed to ensure that the maximum PRP amount paid out may not exceed the PRP paid in respect of that reference year.



PRP payments are not included in pensionable salary. The 2010 awards included claw-back provisions applicable in the event of any misstatement or fraud.

The Company is replacing the annual PRP and matching share element of the LTIP with the new PIP for 2011 (details of which are set out below).

Share Incentives 2010 and 2011

Policy – Upper Quartile of CG

The Remuneration Committee's policy for 2010 was to provide all equity incentives through the LTIP. For 2011 the Performance Share element of the LTIP will be operated but the Matching Share element will be replaced by the PIP.

Key Terms of the LTIP

The following table summarises the key terms of the LTIP:

<table>
<tr><th colspan="3">Marshalls plc 2005 Long-Term Incentive Plan</th></tr>
<tr><td colspan="2">Global Annual Grant Maximum Limit (% of Salary)</td><td>250%</td></tr>
<tr><td colspan="3">Matching Shares</td></tr>
<tr><td>Maximum Annual Grant Value of Matching Shares</td><td>Investment Shares</td><td>Performance Requirements for Matching Shares (over three year performance period)</td></tr>
<tr><td>200% of salary p.a. (if maximum Matching Award is made the corresponding Performance Share award will be limited to 50%)</td><td>Investment Shares have to be held for three years to qualify for the award of Matching Shares (matching is calculated on the grossed up value of the Investment Shares). Investment Shares held in respect of Matching Shares for one Award may be rolled over to a new Matching Share Award where the original Matching Share Award has lapsed.</td><td><table><tr><th>Performance</th><th>% of Award Vesting*</th></tr><tr><td>EPS Growth of RPI+9%</td><td>50%</td></tr><tr><td>EPS Growth of RPI+21%</td><td>200%</td></tr></table>*Straight line vesting between points.</td></tr>
<tr><td colspan="3">Performance Shares</td></tr>
<tr><td>Maximum Annual Grant Value of Performance Shares</td><td colspan="2">Performance Requirements for Performance Shares (over three year performance period)</td></tr>
<tr><td>100% of salary p.a. (or 50% if maximum Matching Award is made)</td><td>Vesting of 50% of the Award subject to EPS performance conditions:<table><tr><th>Performance</th><th>% of Award Vesting*</th></tr><tr><td>EPS Growth of RPI+9%</td><td>12.5%</td></tr><tr><td>EPS Growth of RPI+21%</td><td>50%</td></tr></table>*Straight line vesting between points.</td><td>Vesting of 50% of the Award subject to Operating Cash Flow Growth:<table><tr><th>Performance</th><th>% of Award Vesting*</th></tr><tr><td>Cashflow Growth RPI+9%</td><td>12.5%</td></tr><tr><td>Cashflow Growth RPI+21%</td><td>50%</td></tr></table>*Straight line vesting between points.</td></tr>
<tr><td>Other Terms</td><td colspan="2">The Committee approved minor changes to the LTIP Rules in 2010 to allow a proportion of 2010 Performance Awards to be made as approved share options under an HMRC approved option plan structure. This change does not increase the gross benefit to the participant or the cost to the Company or shareholders.</td></tr>
</table>

Dilution

In accordance with the guidelines set out by the Association of British Insurers ("ABI") the Company can issue a maximum of 10 per cent of its issued share capital in a rolling ten year period to employees under all its share plans and a maximum of 5 per cent for discretionary share plans. The following table summarises the current level of theoretical dilution resulting from Company share plans. The Company would normally satisfy vesting awards from shares purchased in the market by the Marshalls EBT:

Type of Plan	Share Awards as a percentage of Issued Share Capital as at 31 December 2010 in a rolling Ten Year Period	Share Awards as a percentage of Issued Share Capital as at 31 December 2010 granted during the Year
All Employee Share Plans (10% Limit)	3.77%	–
Discretionary Share Plans (5% Limit)	3.16%	1.35%

Performance Conditions for 2011

The Committee considers that the performance criteria set for previous awards of Performance Shares (EPS and Operating Cash Flow growth over a three year period) remain relevant to and aligned with business objectives. It is manifestly clear that they have been and continue to be extremely stretching. The Committee has considered the aggregate potential quantum of incentive rewards and is intending to grant Performance Share Awards in 2011 equal to 100 per cent of basic salary, based on the same stretching criteria.

The Committee believes that this is consistent with its policy, maintains alignment of the interests of shareholders and the Executive Directors, and ensures that a significant element of Executive Directors' remuneration remains variable and dependent on share price performance.

EPS, measured using International Financial Reporting Standards, is based on the audited results of the Company and subject to the discretion of the Committee with regard to one off items.

Operating Cash Flow ("OCF") growth is calculated by taking the aggregated OCF for the three financial years preceding the year of grant of the award and comparing it with the aggregate OCF for the three financial years of the performance period.

The measures will be calculated by reference to the audited results of the Company in each case and any adjustments will be made after consultation with the Company's auditors to ensure transparency.

Share Ownership Guidelines

The table below shows the share ownership guidelines for the Executive Directors and the actual shareholdings at the year end as a percentage of salary.

The value of the shares held by the Executive Directors is calculated based on the share price at the time of acquisition.

Details of the Executive Directors' interests in shares are set out on page 65.

Director	Actual Share Ownership at 31 December 2010	Share Ownership Requirement	Requirement Achieved
Graham Holden	223%	200%	Yes
Ian Burrell	131%	100%	Yes
David Sarti	137%	100%	Yes

2011 Total Potential Compensation Value

The following charts set out:

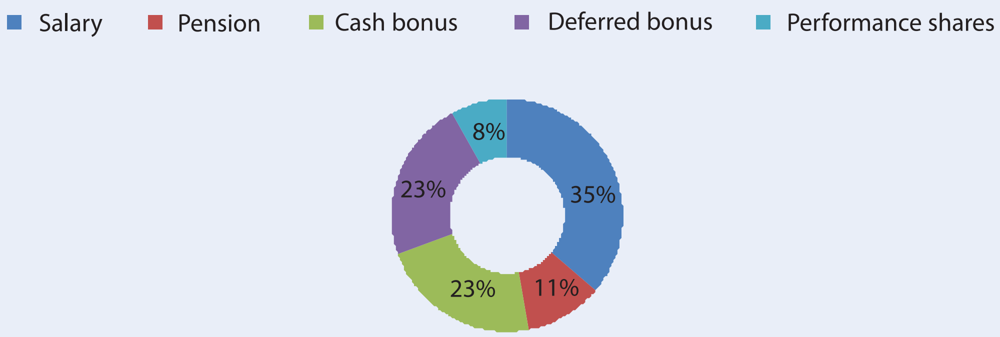
- the potential on-target value of the compensation package provided to Executive Directors. This assumes 50 per cent of the maximum potential compensation is earned, with half paid in cash and half deferred into shares under the PIP, and 25 per cent of the Performance Shares under the LTIP vest; and
- the potential maximum value of the compensation package provided to the Executive Directors. This assumes 100 per cent of the value of the performance related elements of compensation pays out;

and shows the balance between fixed and variable compensation which is identical for each Executive Director.

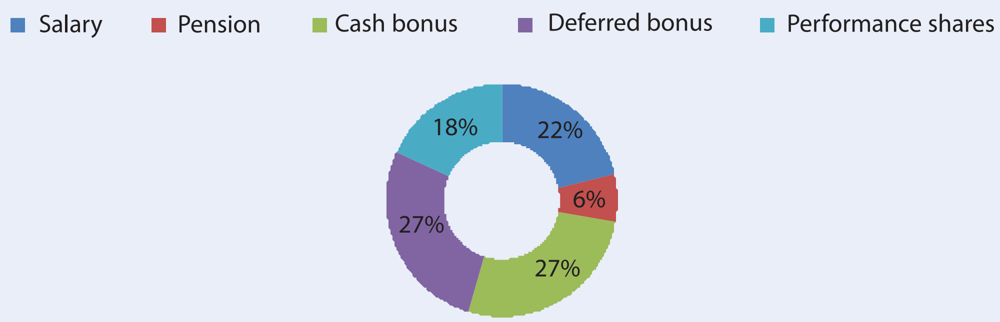
The following should be noted:

- the deferred bonus is valued at the face value of the shares subject to deferral;
- the Performance Shares are valued at fair value in a manner consistent with IFRS; and
- the value is the potential value earned in the year – although in practice, for example, the Performance Shares will not be provided to the Executive Directors until three years after the date of grant and only if the targets are achieved.

Target performance



Maximum performance



New Marshalls plc 2011 PIP

The PIP is a new Plan which will first be operated in 2011. The Company consulted fully with its principal shareholders on the proposals prior to their adoption. The Committee is grateful for the detailed engagement with the Company's principal shareholders and their confirmation at the end of the process that they were supportive of the new PIP.

Rationale behind the PIP

The reasons why the Remuneration Committee felt that the new PIP was appropriate can be summarised as follows:

- **Flexibility**
  - to set performance targets annually; and
  - to ensure that performance targets reflect current strategy.
- **Encourage retention**
  - arrangements are simple and clear to participants; and
  - provide a retentive effect as participants can see the potential benefits accruing over the Plan Period (introducing a long term focus to an annual incentive).
- **Risk adjustment**
  - built into the PIP are conditions that claw back if minimum threshold performance levels are not met in any financial year;
  - ensures performance is maintained over the Plan Period or the value of the Plan Account will not increase; and
  - if there is a material deterioration in performance there is a claw back of 50 per cent of the balance in the Plan Account.
- **Alignment of interests with shareholders**
  - shareholders receive a minimum level of performance prior to any incentive payments being made;
  - participants are encouraged to maximise consistent levels of performance (or lose through the risk adjustment mechanism); and
  - there is a long term alignment with the interests of shareholders as the deferred elements of the PIP are held in the form of equity.

Executive Summary

The key features of the PIP are:

- at the beginning of the Plan Period of three financial years Executive Directors will have a Plan Account to which contributions will be made;
- no contribution will be made to a Participant's Plan Account unless the performance criteria are met;
- each Participant will have a Maximum Annual Contribution as a percentage of salary. The Maximum Annual Contribution for Executive Directors is 250 per cent of salary; however, because 50 per cent of any annual contribution is deferred the maximum annual payment as a percentage of salary over the four year period for Directors who participate in the PIP is as follows:

Year 1	Year 2	Year 3	Year 4
125%	187.5%	218.75%	218.75%

The contribution to the PIP will be based on the following:

- the Remuneration Committee will set the performance criteria for each plan year. The performance criteria for 2011 are set out in the following table:

Performance Criteria	Percentage of Maximum Contribution
PRIMARY	
EPS Growth	67%
Cash	33%
SECONDARY	
Customer Services (maintain at or above 95%) Health & Safety (incidence)	Reduction of contribution earned under the primary performance criteria by 15% if not met.

- the Remuneration Committee will also set minimum threshold performance criteria ("Forfeiture Threshold");
- the Remuneration Committee will provide full disclosure in the relevant Remuneration Committee Report of the relevant targets, the actual level of performance, the size of the resulting Award Pool and the values of payments and Plan Account balances for Executive Directors;
- where the Forfeiture Threshold is not achieved 50 per cent of the deferred balance in a Participant's Plan Account will be forfeited; and
- Participants will be entitled to an annual payment of 50 per cent of the balance of their Plan Account at the end of each Plan Year. All balances not paid will be deferred in shares. On the fourth anniversary of the start of the Plan Period the balance of Participants' Accounts will be paid.

External Board Appointments

The Committee considers that external directorships provide the Executive Directors with a valuable opportunity to broaden their knowledge and experience and that such appointments are of benefit to the Company. The appointment of any Executive Director as a Non-Executive Director of another company is the subject of the prior approval of the Board. The Committee believes that it is reasonable for the individual Director to retain any fees received from such appointments given the additional personal responsibility that this entails. In accordance with its commitment to corporate and social responsibility, the Board also supports Executive Directors who volunteer to serve on the boards or governing bodies of social, trade and charitable bodies.

Graham Holden served as a Non-Executive Director of KCOM Group Plc throughout 2010. During the year he received a fee of £45,000 from this company which he retained.

During the year David Sarti served as a Non-Executive Director of an independent private group of companies in respect of which he is entitled to a fee of £25,000 which he will be allowed to retain.

Service Contracts

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

These contracts do not contain liquidated damages clauses. If a contract is to be terminated, the Committee will determine such mitigation as it considers fair and reasonable in each case. In determining any compensation, it will take into account the best practice provisions of the Code and published guidance from recognised institutional investor bodies, and will take legal advice on the Company's liability to pay compensation and the appropriate amount. The Committee periodically considers what compensation commitments the Executive Directors' contracts would entail in the event of early termination.

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

The Company's practice is to appoint the Non-Executive Directors, including the Chairman, under letters of appointment. Their appointment is usually for a term of three years. Either the Company or the Non-Executive Director may terminate the appointment before the end of the current term on six months' notice. If the unexpired term is less than six months, notice does not need to be served.

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

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

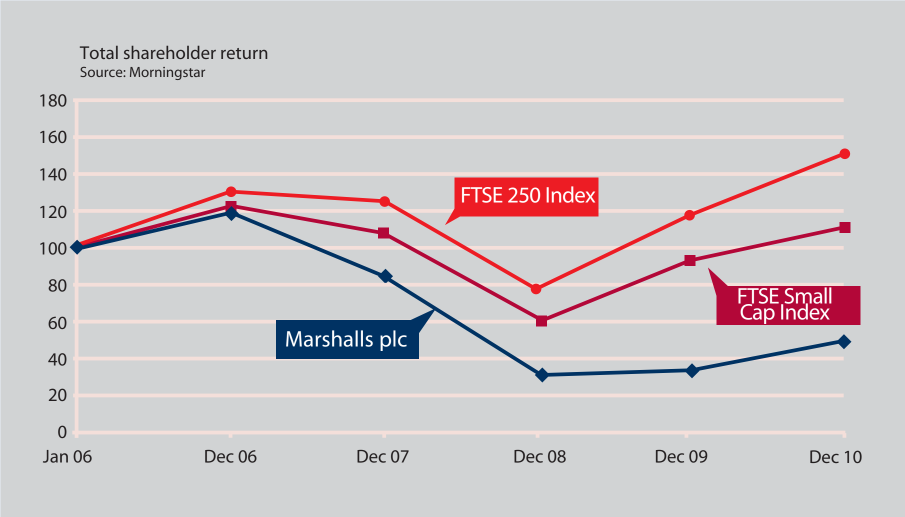
In accordance with the Group's policy of seeking to ensure that the skills and experience of the Board are regularly refreshed, Mike Davies and Richard Scholes retired from the Board as Non-Executive Chairman and as a Non-Executive Director respectively in May 2010, and Bill Husselby retired from the Board as a Non-Executive Director in October 2010. Alan Coppin and Mark Edwards were appointed as Non-Executive Directors in May 2010 and Tim Pile was appointed as a Non-Executive Director in October 2010. Ian Burrell is due to retire by rotation and is eligible for re-election, and Alan Coppin, Mark Edwards and Tim Pile are required to stand for election at the Annual General Meeting in May 2011. However, in anticipation of the provisions of the UK Corporate Governance Code, it is expected that all Directors will stand for election or re-election in May 2011.

Non-Executive Directors' Fees

The fees for the Non-Executive Directors were adjusted with effect from 1 May 2010. The basic fixed annual fee is £39,000 with an additional fee of £6,000 for the Chairmanship of a Board Committee. During the year the Chairman received a fee the equivalent of an annual fee of £125,000. The Non-Executive Directors also receive an annual fixed gross payment of £6,500 (£10,000 in the case of the Chairman) to cover travelling, accommodation and subsistence expenses incurred in the performance of their duties. Neither the Chairman nor the Non-Executive Directors receive any other benefits or participate in the pension or share based incentive schemes. Fees and allowances for Non-Executive Directors who retired during the year were paid pro rata until the end of the month of retirement. No increases to Non-Executive Directors' annual fees have been proposed for 2011.

	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**
Andrew Allner	July 2003, last renewed on appointment as Chairman May 2010	3 years
Alan Coppin	May 2010	3 years
Mark Edwards	May 2010	3 years
Tim Pile	October 2010	3 years

Five Year Total Shareholder Return



This graph shows the Group's total shareholder return ("TSR") performance compared to both the FTSE 250 and FTSE Small Cap indices for the period from 1 January 2006 to 31 December 2010. TSR is defined as share price growth plus reinvested dividends. The FTSE 250 and FTSE Small Cap indices are used for comparison, since these are the equity indices of which Marshalls plc has been a constituent during the period illustrated (prior to 23 June 2008 Marshalls plc was a constituent of the FTSE 250 index, and since that date the Company has been a constituent of the FTSE Small Cap index). This graph shows the value at 31 December 2010 of £100 invested in Marshalls plc on 31 December 2005 compared with the value of £100 invested in the FTSE 250 Index and the FTSE Small Cap Index. The other plotted points are the intervening financial year ends.

Audited part of the Report

Directors' Remuneration

	Salary/ fees £'000	Annual performance bonus £'000	Benefits £'000	Total remuneration (excluding pensions) 2010 £'000	Total remuneration (excluding pensions) 2009 £'000	Pension defined contribution payments (or substitued salary supplement) 2010 £'000	Pension defined contribution payments (or substitued salary supplement) 2009 £'000	Maximum potential LTIP shares awarded Number of shares
Chairman								
Mike Davies	60	-	-	60	145	-	-	-
Andrew Allner	92	-	-	92	44	-	-	-
Executive Directors								
Ian Burrell	230	89	12	331	352	69	69	863,091
Graham Holden	400	154	9	563	601	108	110	1,501,031
David Sarti	230	89	20	339	357	69	69	863, 091
Non-Executive Directors								
Alan Coppin	28	-	-	28	-	-	-	-
Mark Edwards	28	-	-	28	-	-	-	-
Bill Husselby	28	-	-	28	34	-	-	-
Richard Scholes	14	-	-	14	44	-	-	-
Tim Pile	9	-	-	9	-	-	-	-
	1,119	332	41	1,492	1,577	246	248	3,227,213

Notes to Directors' Remuneration

(a) The salaries, fees, performance related bonuses and benefits all relate to the year ended 31 December 2010.

(b) The highest paid Director in the year was Graham Holden.

(c) Graham Holden is affected by the lifetime cap on pension benefit and consequently receives a salary supplement instead of his contractual employer pension contribution.

(d) Benefits are the provision of a fully expensed company car and medical insurance.

(e) Andrew Allner's fee includes £13,000 in respect of his position as a Non-Executive Director before May 2010 and £79,000 following his appointment as Chairman in May 2010.

(f) Mike Davies, Richard Scholes and Bill Husselby received fees pro rata until the month end of retirement. Alan Coppin, Mark Edwards and Tim Pile received fees pro rata from the month of their appointment.

(g) The Chairman and Non-Executive Directors fees in the table above do not include the annual gross fixed payments of £10,000 and £6,500 respectively to cover travelling, accommodation and subsistence expenses incurred in the performance of their duties.

Directors' Interests in Shares

Table of Share Interests

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

	31 December 2010				31 December 2009			
	Ordinary Shares	Marshalls Share Purchase Plan Shares	LTIP Investment Shares	Total	Ordinary Shares	Marshalls Share Purchase Plan Shares	LTIP Investment Shares	Total
Andrew Allner	35,000	-	-	35,000	35,000	-	-	35,000
Ian Burrell	10,153	4,567	141,651	156,371	52,759	2,998	99,045	154,802
Alan Coppin	-	-	-	-	-	-	-	-
Mark Edwards	10,000	-	-	10,000	-	-	-	-
Graham Holden	199,937	4,567	249,379	453,883	254,986	2,998	194,330	452,314
Tim Pile	18,424	-	-	18,424	-	-	-	-
David Sarti	36,208	4,567	141,651	182,426	78,414	2,998	97,445	178,857

Notes to Directors' Share Interests table

(a) There were no changes between 1 January 2011 and 11 March 2011 save that each of the Executive Directors acquired 333 shares in the Marshalls plc Share Purchase Plan (the Plan) between January and March 2011. The Plan is an HM Revenue & Customs approved Employee Share Incentive Plan which was approved by shareholders in 2006. All employees with more than 6 months service are eligible to participate in the Plan which entitles them to purchase shares in the Company with pre-tax salary.

(b) The Non-Executive Directors are not eligible to participate in the Marshalls plc Share Purchase Plan or the LTIP.

(c) None of the Directors held any options during the year other than approved options under the Long Term Incentive Plan as listed in the table below, nor did they hold any interests in derivatives or other financial instruments relating to the Company's shares.

Long Term Incentive Plan

Name	LTIP Share Awards	At 1 January 2010	Granted	Lapsed (Note c)	As 31 December 2010 (Note c)	Market Price on Date of Award (pence)	Date of Award	Date from which Exerci-sable
Ian Burrell	Matching Shares	145,811	-	145,811	-	249	10.03.08	10.03.11
	Performance Shares	51,957	-	51,957	-	248	13.03.08	13.03.11
	Matching Shares	99,407	-	-	99,407	81	12.03.09	12.03.12
	Performance Shares	331,362	-	-	331,362	78	12.03.09	12.03.12
	Matching Shares	-	239,045	-	239,045	89.25	11.03.10	11.03.13
	Performance Shares	-	193,277	-	193,277	89.25	11.03.10	11.03.13
Graham Holden	Matching Shares	263,850	-	263,850	-	249	10.03.08	10.03.11
	Performance Shares	136,213	-	136,213	-	248	13.03.08	13.03.11
	Matching Shares	172,883	-	-	172,883	81	12.03.09	12.03.12
	Performance Shares	576,283	-	-	576,283	78	12.03.09	12.03.12
	Matching Shares	-	415,731	-	415,731	89.25	11.03.10	11.03.13
	Performance Shares	-	336,134	-	336,134	89.25	11.03.10	11.03.13
David Sarti	Matching Shares	145,811	-	145,811	-	249	10.03.08	10.03.11
	Performance Shares	51,957	-	51,957	-	248	13.03.08	13.03.11
	Matching Shares	99,407	-	-	99,407	81	12.03.09	12.03.12
	Performance Shares	331,362	-	-	331,362	78	12.03.09	12.03.12
	Matching Shares	-	239,045	-	239,045	89.25	11.03.10	11.03.13
	Performance Shares	-	193,277	-	193,277	89.25	11.03.10	11.03.13

Notes to LTIP table

(a) The Share price on 31 December 2010 was 104.75 pence (2009 : 86.00 pence).

(b) The Matching Share Awards are subject to an EPS performance target and the Performance Share Awards are subject to EPS and OCF performance targets as set out above. Awards not exercised within 10 years of the date of grant will lapse.

(c) Awards outstanding as at 31 December 2010 or which have lapsed by reference to the financial period ending on that date have been restated to include adjustments made following the Rights Issue in June 2009.

(d) Part of the March 2010 Performance Awards are held in the form of HM Revenue and Customs Approved options. If the performance criteria are met and there has been an increase in share price, the Approved options may be exercised to deliver part of the total value of the Performance Award subject only to Capital Gains Tax. To the extent that value is delivered through the Approved options, an equivalent proportion (in value) of the non-approved Performance Award shares will lapse.

Pension Benefits

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

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

Executive Directors may take a salary supplement in place of the Company's contribution to the Scheme on the basis that the salary supplement is set at a level which would incur no additional cost for the Company. In this case, other Scheme benefits, such as life assurance, remain unchanged. Graham Holden chose to take his pension entitlement early as permitted under the Scheme on reaching age 50 on 28 December 2009 and ceased to be an active Scheme member. He received a salary supplement throughout 2010 in lieu of employer contributions. He remains entitled to life assurance benefits under the Company's Life Assurance scheme.

As Graham Holden was previously in the Final Salary Section of the Scheme, he was entitled to a deferred pension under this Section until his early retirement date. The Scheme provides for a pension for dependants and, in the event of death within the first five years following the date of retirement, a lump sum payment equal to the balance of the pension entitlement for that five year period.

By virtue of having elected to take his Scheme benefits at 50, Graham Holden ceased to be able to take a transfer of accrued benefits. No further benefits will accrue after 28 December 2009.

Approval

An ordinary resolution to receive and approve this Report will be proposed at the Company's Annual General Meeting to be held on 11 May 2011.

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

Alan Coppin

Chairman of the Remuneration Committee

11 March 2011

Report of the Audit Committee

The Board has an established Audit Committee. Each of its members is an independent Non-Executive Director. The Board is satisfied that this Committee includes members that have recent and relevant financial experience required by the Code. The Chairman of the Committee, Mark Edwards, is a Chartered Accountant.

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

During 2010 the Audit Committee met four times. Its work included the following:

- Planning and scoping annual and half-yearly audit reviews, receiving audit reports and reviewing financial statements;
- Reviewing internal controls, internal audit process and report findings;
- Risk register reviews, including financial risk assessments and updates to the Risk Register;
- Review of auditor independence, appointment of auditors and audit and non-audit fees;
- Policy reviews and reporting, including Serious Concerns Policy; and
- Performance review as part of Board evaluation.

The Audit Committee has primary responsibility for making a recommendation on the appointment, re-appointment and removal of the external auditor to the Board, as submitted 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. The Audit Committee has reviewed the independence and objectivity of the auditor during 2010 and considers that the appointed auditors, KPMG Audit Plc, are independent and remain objective. In doing so, it has taken account of the processes in place within KPMG Audit Plc designed to maintain independence. The Company also has procedures in place to safeguard independence, including limits on the amount of non-audit work awarded to the auditors. Any work awarded to the external auditors with a value in excess of £25,000, or in aggregate a value exceeding £50,000 in any financial year, other than audit and tax compliance, requires the specific approval of the Audit Committee. Where the Committee perceives that the independence of the auditors could be compromised, the work will not be awarded to the external auditors. Details of amounts paid to the external auditors for audit and non-audit services in 2010 are analysed in Note 3 on page 89. The amount paid for non-audit work represented approximately 12.5 per cent of total fees paid to the external auditors in 2010. The aggregate amount paid to other firms of accountants for non-audit services in the same period was £171,000 (2009: £98,000).

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

The Audit Committee reviews the planned Internal Audit Programme. The results of all assignments have been reported to the Audit Committee during the year. These assignments form part of a much wider programme of independently audited aspects of the Group's operations. Any areas of weakness that are identified through this process prompt a detailed action plan and a follow up audit check to establish that actions have been completed. No significant failings or weaknesses were identified during the year.

The Audit Committee has, during the year, reviewed the arrangements by which employees, and other people working for the Company, may in confidence raise concerns about possible improprieties in matters of financial reporting or other matters. The Company does have a Serious Concerns Policy (Whistle-blowing Policy) which is available to all employees. It is displayed on notice boards and on the Company's intranet. The policy sets out the procedure for employees to raise legitimate concerns about any wrong-doing without fear of criticism, discrimination or reprisal. There were two matters raised under this policy during 2010, both of which were fully investigated and resolved. The Serious Concerns Policy was reviewed during the year and the Audit Committee was satisfied that arrangements are in place for the proportionate and independent investigation of such matters and for appropriate follow-up action.

The Audit Committee monitors and reviews the effectiveness of internal control activities. It also reviewed the need for an in-house internal audit function during 2010 and concluded that the current process, under which firms of external accountants that are independent from the Company's auditors and have no other connection with the Group carry out regular internal audit assignments of a financial and systems nature, was the most effective means of managing the internal audit function. The Audit Committee notes that the Company has implemented and continued to operate a self certification internal control process to support the internal audit process throughout the year.

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

Mark Edwards
Chairman of the Audit Committee
11 March 2011

Nomination Committee Report

The Board has an established Nomination Committee whose members are the Non-Executive Directors. The Chairman of the Board normally chairs this Committee except where it is dealing with his own re-appointment or replacement. The Terms of Reference of the Committee are available on the Company's website (www.marshalls.co.uk).

During 2010 the Nomination Committee met three times. Its work included:

- Board succession planning, including the preparation of a brief of desired skills and experience and the appointment of external search consultants in connection with the appointment of new Non-Executive Directors;
- Appointment of new Non-Executive Directors and Chairman;
- Performance evaluation of the Directors who sought re-election at the Annual General Meeting in 2010, and of those Directors whose letters of appointment were renewed;
- A review of the Board conflicts register and of any notifications; and
- Review of its Terms of Reference to ensure they remained appropriate and an evaluation of its own performance as part of the Board evaluation process.

The Nomination Committee undertakes an evaluation of the balance of skills, knowledge and experience on the Board at least annually and leads the process of recruiting new Directors to the Board. Ideally, the retirement and appointment of directors is phased to maintain continuity within the replacement cycle: however, during 2009 Board change was delayed to allow the Board to focus on the business response to the uncertain economic climate. In 2010 the delayed changes were implemented and the Committee oversaw the appointment of three new Non-Executive Directors. In addition, the Committee (Mike Davies abstaining) determined that Andrew Allner should replace Mike Davies as Chairman of the Board. In seeking new Non-Executive Directors, the Committee, using independent consultants Hanson Green for two of the appointments and Orchid for the third, set objective criteria aimed at enhancing and balancing the skills of the Board by recruiting high calibre individuals of diverse backgrounds and experience regardless of gender, sexuality, race or disability. The Committee is delighted to have recruited Alan Coppin, Mark Edwards and Tim Pile, whose appointments will refresh and enhance the skills and experience of the Board as a whole following the retirement of Mike Davies and Richard Scholes in May 2010, and of Bill Husselby in October 2010.

Each Non-Executive Director has been provided with a detailed description of his role and responsibilities, and received a detailed business induction. The other appointments held by the Non-Executive Directors have been declared to the Company in accordance with the rules on conflicts adopted by the Board, and none is regarded as likely to give rise to any conflict with the Board. Non-Executive Directors are appointed for specific terms, subject to re-appointment and the Company's Articles of Association and subject to the Companies Act provisions relating to the removal of a Director. The current terms of appointment of the Directors are shown on page 62. Each of Alan Coppin, Mark Edwards and Tim Pile will stand for election at the Company's Annual General Meeting in May 2011.

The Nomination Committee also evaluates the performance of any Director who is retiring by rotation and seeking re-election. In order for a re-election proposal to proceed, the Committee should be able to conclude that the Director continues to be effective and demonstrates commitment to the role, following which the Nomination Committee makes its recommendation to the Board. In the circular to shareholders accompanying the resolution to re-elect, there is an explanation from the Chairman as to why the Director should be re-elected and confirming that a formal performance evaluation has taken place. The Committee also carries out a performance evaluation in the event of a proposal to re-appoint a Director on expiry of their current appointment.

The letters of appointment of the Chairman and other Non-Executive Directors set out the expected time commitment involved in the role, and any other significant commitments of the Chairman and the Non-Executive Directors were disclosed to the Board before appointment. The letters of appointment provide for subsequent changes to other commitments to be advised to the Company so these can be monitored. All Non-Executive Directors, including the Chairman, undertake that they will have sufficient time to fulfil their duties as Directors of the Company. During the year Andrew Allner became a Non-Executive Director of AZ Electronic Materials SA, Alan Coppin became Chairman of the Retail People and Mark Edwards became a Non-Executive Director of Atlas Fine Wines Limited. None of these appointments was considered likely to have an adverse impact on the Board. There were no other changes notified to the Committee. The letters of appointment of the Non-Executive Directors are available for inspection at the Company's registered office.

It is the Company's policy that Executive Directors can only hold one external company Non-Executive Directorship. Graham Holden is a Non-Executive Director of KCOM Group Plc and David Sarti is a Non-Executive Director of an independent private company group. Voluntary service on the Governing Board of a social, trade or charitable organisation is also permitted.

This Nomination Committee Report has been approved by the Board and signed on its behalf by:

Andrew Allner
Chairman of the Nomination Committee
11 March 2011

Independent Auditor's Report to the Members of Marshalls plc

We have audited the Financial Statements of Marshalls plc for the year ended 31 December 2010 set out on pages 74 to 118. The financial reporting framework that has been applied in the preparation of the Group Financial Statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU. The financial reporting framework that has been applied in the preparation of the Parent Company Financial Statements is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an Auditor's Report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and Auditor

As explained more fully in the Directors' Responsibilities Statement set out on pages 49 to 50, the Directors are responsible for the preparation of the Financial Statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the Financial Statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the Audit of the Financial Statements

A description of the scope of an audit of Financial Statements is provided on the APB's website at www.frc.org.uk/apb/scope/private.cfm.

Opinion on Financial Statements

In our opinion:

- the Financial Statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2010 and of the Group's profit for the year then ended;
- the Group Financial Statements have been properly prepared in accordance with IFRSs as adopted by the EU;
- the Parent Company Financial Statements have been properly prepared in accordance with UK Generally Accepted Accounting Practice;
- the Financial Statements have been prepared in accordance with the requirements of the Companies Act 2006; and, as regards the Group Financial Statements, Article 4 of the IAS Regulation.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Directors' Report for the financial year for which the Financial Statements are prepared is consistent with the Financial Statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

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

- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company Financial Statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or

Independent Auditors' Report to the Members of Marshalls plc (continued)

- certain disclosures of Directors' Remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review:

- the Directors' Statement, set out in Note 1(b) on page 80, in relation to going concern;
- the part of the Corporate Governance Statement on pages 43 to 50 relating to the Company's compliance with the nine provisions of the June 2008 Combined Code specified for our review; and
- certain elements of the report to shareholders by the Board on Directors' Remuneration.

Chris Hearld (Senior Statutory Auditor)
for and on behalf of KPMG Audit Plc,
Statutory Auditor
Chartered Accountants
1 The Embankment
Neville Street
Leeds
LS1 4DW
11 March 2011

Consolidated Income Statement

for the year ended 31 December 2010

	Notes	Total 2010 £'000	Before works closure costs and redemption of debenture 2009 £'000	Works closure costs and redemption of debenture 2009 £'000	Total 2009 £'000
Revenue	2	**323,104**	311,685	-	311,685
Net operating costs	3, 4	**(311,333)**	(295,276)	(7,217)	(302,493)
Operating profit	2	**11,771**	16,409	(7,217)	9,192
Financial expenses	6	**(14,479)**	(15,247)	(7,259)	(22,506)
Financial income	6	**11,921**	10,944	-	10,944
Profit/(loss) before tax	2	**9,213**	12,106	(14,476)	(2,370)
Income tax (expense)/credit	7	**(1,863)**	(2,435)	4,053	1,618
Profit/(loss) for the financial period attributable to equity shareholders of the parent		**7,350**	9,671	(10,423)	(752)
Earnings per share:					
Basic	8	**3.76p**	5.38p		(0.42)p
Diluted	8	**3.69p**	5.28p		(0.42)p
Dividend:*					
Pence per share	9	**5.25p**			3.05p
Dividends declared	9	**10,294**			5,460

* Dividends per share in the prior period have been adjusted by the "bonus factor" inherent in the Rights Issue.

The Notes on pages 79 to 112 form part of the Consolidated Financial Statements.

Consolidated Statement of Comprehensive Income

for the year ended 31 December 2010

	2010 £'000	2009 £'000
Profit/(loss) for the period	**7,350**	(752)
Other comprehensive income		
Effective portion of changes in fair value of cash flow hedges	**(505)**	172
Fair value of cash flow hedges transferred to the Income Statement	**262**	-
Deferred taxation arising	**66**	(50)
Defined benefit scheme actuarial gains/(losses)	**27,640**	(56,002)
Deferred taxation arising	**(7,463)**	15,680
Impact of the change in rate of deferred taxation	**(123)**	-
Other comprehensive income/(expense) for period, net of income tax	**19,877**	(40,200)
Total comprehensive income/(expense) for the period (attributable to equity shareholders of the parent)	**27,227**	(40,952)

Consolidated Balance Sheet

at 31 December 2010

	Notes	2010 £'000	2009 £'000
Assets			
Non-current assets			
Property, plant and equipment	10	**190,627**	202,570
Intangible assets	11	**42,945**	41,559
Investment in associates	12	**2,163**	2,118
Deferred taxation assets	20	**1,171**	10,696
		236,906	256,943
Current assets			
Inventories	13	**81,626**	82,187
Trade and other receivables	14	**27,925**	31,267
Cash and cash equivalents	15	**4,059**	9,283
		113,610	122,737
Total assets		**350,516**	379,680
Liabilities			
Current liabilities			
Trade and other payables	16	**48,552**	53,248
Corporation tax		**5,164**	3,845
Interest bearing loans and borrowings	17	**40,900**	20,039
		94,616	77,132
Non-current liabilities			
Interest bearing loans and borrowings	17	**30,000**	58,400
Employee benefits	19	**4,092**	37,956
Deferred taxation liabilities	20	**23,568**	25,093
		57,660	121,449
Total liabilities		**152,276**	198,581
Net assets		**198,240**	181,099
Equity			
Capital and reserves attributable to equity shareholders of the parent			
Share capital	21	**49,845**	49,845
Share premium account		**22,695**	22,695
Own shares		**(9,514)**	(9,472)
Capital redemption reserve		**75,394**	75,394
Consolidation reserve		**(213,067)**	(213,067)
Hedging reserve		**(179)**	(2)
Retained earnings		**273,066**	255,706
Equity shareholders' funds		**198,240**	181,099

Approved at a Directors' meeting on 11 March 2011.
On behalf of the Board:

D.G. Holden
Chief Executive

I.D. Burrell
Finance Director

The Notes on pages 79 to 112 form part of these Consolidated Financial Statements.

Consolidated Cash Flow Statement

for the year ended 31 December 2010

	Notes	2010 £'000	2009 £'000
Cash flows from operating activities			
Profit/(loss) before tax		**9,213**	(2,370)
Adjustments for:			
Depreciation		**17,771**	18,773
Amortisation		**1,554**	877
Works closure costs		**-**	7,217
Share of results of associates		**63**	(5)
Gain on sale of property, plant and equipment		**(746)**	(859)
Equity settled share based expenses		**250**	245
Financial income and expenses (net)		**2,558**	11,562
Operating cash flow before changes in working capital and pension scheme contributions		**30,663**	35,440
Decrease in trade and other receivables		**3,342**	955
Decrease in inventories		**561**	7,627
Decrease in trade and other payables		**(3,436)**	(5,346)
Works closure costs paid		**(1,447)**	(6,854)
Pension scheme contributions		**(6,600)**	(2,150)
Cash generated from the operations		**23,083**	29,672
Financial expenses paid		**(2,177)**	(4,296)
Income tax (paid)/received		**(129)**	2,950
Net cash flow from operating activities		**20,777**	28,326
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		**3,936**	2,353
Financial income received		**4**	97
Acquisition of subsidiaries and investment in associates		**(108)**	(750)
Acquisition of property, plant and equipment		**(9,018)**	(8,077)
Acquisition of intangible assets		**(2,940)**	(1,085)
Net cash flow from investing activities		**(8,126)**	(7,462)
Cash flows from financing activities			
Proceeds from issue of share capital		**-**	36,588
Share issue costs paid		**-**	(2,559)
Payments to acquire own shares		**(42)**	-
Net decrease in other debt and finance leases		**(39)**	(102)
Premium on redemption of debenture		**-**	(7,259)
Decrease in borrowings		**(7,500)**	(33,327)
Equity dividends paid		**(10,294)**	(5,460)
Net cash flow from financing activities		**(17,875)**	(12,119)
Net (decrease)/increase in cash and cash equivalents		**(5,224)**	8,745
Cash and cash equivalents at 1 January		**9,283**	538
Cash and cash equivalents at 31 December	15	**4,059**	9,283

Consolidated Statement of Changes in Equity

for the year ended 31 December 2010

	Share capital £'000	Share premium account £'000	Own shares £'000	Capital redemption reserve £'000	Consolid-ation reserve £'000	Hedging reserve £'000	Retained earnings £'000	Total £'000
Current year								
At 1 January 2010	**49,845**	**22,695**	**(9,472)**	**75,394**	**(213,067)**	**(2)**	**255,706**	**181,099**
Total comprehensive income for the period								
Profit for the financial period attributable to equity shareholders of the parent	-	-	-	-	-	-	**7,350**	**7,350**
Other comprehensive income								
Effective portion of changes in fair value of cash flow hedges	-	-	-	-	-	**(505)**	-	**(505)**
Net change in fair value of cash flow hedges transferred to the Income Statement	-	-	-	-	-	**262**	-	**262**
Deferred taxation arising	-	-	-	-	-	**66**	-	**66**
Defined benefit scheme actuarial gains	-	-	-	-	-	-	**27,640**	**27,640**
Deferred taxation arising	-	-	-	-	-	-	**(7,463)**	**(7,463)**
Impact of the change in rate of deferred taxation	-	-	-	-	-	-	**(123)**	**(123)**
Total other comprehensive income	-	-	-	-	-	**(177)**	**20,054**	**19,877**
Total comprehensive income for the period	-	-	-	-	-	**(177)**	**27,404**	**27,227**
Transactions with owners, recorded directly in equity								
Contributions by and distributions to owners								
Share based expenses	-	-	-	-	-	-	**250**	**250**
Dividends to equity shareholders	-	-	-	-	-	-	**(10,294)**	**(10,294)**
Purchase of own shares	-	-	**(42)**	-	-	-	-	**(42)**
Total contributions by and distributions to owners	-	-	**(42)**	-	-	-	**(10,044)**	**(10,086)**
At 31 December 2010	**49,845**	**22,695**	**(9,514)**	**75,394**	**(213,067)**	**(179)**	**273,066**	**198,240**

Consolidated Statement of Changes in Equity (continued)

for the year ended 31 December 2009

	Share capital	Share premium account	Own shares	Capital redemption reserve	Consolid-ation reserve	Hedging reserve	Retained earnings	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Prior year								
At 1 January 2009	35,777	2,734	(9,472)	75,394	(213,067)	(124)	301,995	193,237
Total comprehensive income for the period								
Loss for the financial period attributable to equity shareholders of the parent	-	-	-	-	-	-	(752)	(752)
Other comprehensive income								
Effective portion of changes in fair value of cash flow hedges	-	-	-	-	-	172	-	172
Deferred taxation arising	-	-	-	-	-	(50)	-	(50)
Defined benefit scheme actuarial losses	-	-	-	-	-	-	(56,002)	(56,002)
Deferred taxation arising	-	-	-	-	-	-	15,680	15,680
Total other comprehensive income	-	-	-	-	-	122	(40,322)	(40,200)
Total comprehensive income for the period	-	-	-	-	-	122	(41,074)	(40,952)
Transactions with owners, recorded directly in equity								
Contributions by and distributions to owners								
Share based expenses	-	-	-	-	-	-	245	245
Dividends to equity shareholders	-	-	-	-	-	-	(5,460)	(5,460)
Shares issued	14,068	22,520	-	-	-	-	-	36,588
Shares issue costs	-	(2,559)	-	-	-	-	-	(2,559)
Total contributions by and distributions to owners	14,068	19,961	-	-	-	-	(5,215)	28,814
At 31 December 2009	49,845	22,695	(9,472)	75,394	(213,067)	(2)	255,706	181,099

Notes to the 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 2010 comprise the Company and its subsidiaries (together referred to as the "Group").

The Consolidated Financial Statements were authorised for issue by the Directors on 11 March 2011.

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

The following published accounting standards have become effective for the first time in the year ended 31 December 2010:

- Revised IFRS 3 - *'Business Combinations'* - (mandatory for the year commencing on or after 1 July 2009). This provides comprehensive revision on applying the acquisition method of accounting. Changes include the requirement that transaction costs must be expensed when they are incurred and do not form part of the acquisition price. Contingent consideration is required to be recognised at fair value even if it is not deemed to be probable of payment at the date of the acquisition. All subsequent changes in debt contingent consideration are recognised in the Income Statement, rather than against goodwill as it is deemed to be a liability recognised under IAS 32/39. These changes have no material impact on the Consolidated Financial Statements as retrospective application to earlier business combinations is not allowed.

- Amendments to IAS 27 - *'Consolidated and Separate Financial Statements'* (mandatory for the year commencing on or after 1 July 2009). The amendments to IAS 27 reflect changes to the accounting for non-controlling (minority) interests and deal primarily with the accounting for changes in ownership interests in subsidiaries after control is obtained, the accounting for the loss of control of subsidiaries, and the allocation of profit or loss to controlling and non-controlling interests in a subsidiary. These changes have had no material impact on the Consolidated Financial Statements as there is no minority interest, as subsidiaries are fully owned and there have been no changes in the control of subsidiaries in the year.

- Amendments to IAS 39 - *'Financial Instruments: Recognition and Measurement: Eligible Hedged Items'* (mandatory for year commencing on or after 1 July 2009). The amendments to IAS 39 clarify how to apply existing principles in determining eligible hedged risks and portions. These changes have had no material impact on the Consolidated Financial Statements.

- Amendments to IAS 39 - *'Reclassification of Financial Assets: Effective Date and Transition'* (mandatory for year commencing on or after 1 July 2009). These changes have had no material impact on the Consolidated Financial Statements.

- *Improvements to IFRSs* - (issued 16 April 2009) (adoption dates vary but certain improvements are mandatory for the year commencing on or after 1 July 2009). On 16 April 2009 the IASB published the Improvements to IFRSs 2009. The Improvements to IFRSs 2009 is the result of the IASB's second annual improvements project (AIP). This project has involved the IASB accumulating throughout the year what it believes are non-urgent but necessary improvements to IFRSs and then processing these amendments collectively. The Improvements to IFRSs 2009 contains 15 amendments to 12 standards. These changes have had no material impact on the Consolidated Financial Statements

A number of standards have been endorsed but, in respect of the year ended 31 December 2010, are not yet effective. None of these are expected to have a material impact on the Consolidated Financial Statements.

(a) Statement of compliance

The Group Consolidated Financial Statements have been prepared and approved by the Directors in accordance with International Financial Reporting Standards as adopted by the European Union ("adopted IFRSs"). The Parent Company has elected to prepare its Financial Statements in accordance with UK GAAP; these are presented on pages 113 to 118.

1 Accounting policies (continued)

(b) Basis of preparation

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Business Review on pages 6 to 24. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are also set out in the Business Review. In addition, Note 18 includes the Group's policies and procedures for managing its capital; its financial risk management objectives; details of its financial instruments; and its exposures to credit risk and liquidity risk.

Details of the Group's funding position are set out in Note 18 and are subject to normal covenant arrangements. The Group's on-demand overdraft facility is renewed on an annual basis and the current arrangements were renewed and signed on 20 August 2010. As part of the planned maturity profile certain loans mature within the next twelve months. Management believe that these facilities that are due for renewal can be renewed and that there are sufficient unutilised facilities held which mature after twelve months. As noted in the Business Review, the Group's performance is dependent on economic and market conditions, the outlook for which is uncertain and difficult to predict. The Group has taken decisive action to align its operational capacity with expected market conditions. Markets appear to be easing and stabilising and, based on current expectations, the Group's cash forecasts meet half-year and year end bank covenants and there is adequate headroom which is not dependent on facility renewals. The Directors believe that the Group is well placed to manage its business risks successfully despite the current uncertain economic outlook. Accordingly, they continue to adopt the going concern basis in preparing the Group Consolidated Financial Statements.

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

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

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

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

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

Judgements made by management in the application of adopted IFRSs that have a significant effect on the Consolidated Financial Statements and estimates with a significant risk of material adjustment in the next year are discussed in Note 26.

(c) Basis of consolidation

(i) Subsidiaries

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

(ii) Associates (equity accounted investees)

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20 and 50 per cent of the voting power of another entity. Associates are accounted for using the equity method (equity accounted investees) and are recognised initially at cost. The Group's investment includes goodwill identified on acquisition, 1 **Accounting policies** (continued)

(c) **Basis of consolidation** (continued)

(ii) Associates (equity accounted investees) (continued)

net of any accumulated impairment losses. The Consolidated Financial Statements include the Group's share of the income and expenses and equity movements of equity accounted investees, after adjustment to align the accounting policies with those of the Group, from the date that significant influence commences until the date that significant influence ceases. When the Group's share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest (including any long-term investments) is reduced to nil and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee.

(iii) Transactions eliminated on consolidation

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

(d) Foreign currency transactions

Transactions in foreign currencies are translated to sterling at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to sterling at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the Consolidated Income Statement. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

(e) Derivative financial instruments

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

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

(f) Hedging

(i) Cash flow hedges

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

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

(ii) Economic hedges

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

1 Accounting policies (continued)

(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 directly attributable production overheads.

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

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

(ii) Leased assets

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

(iii) Subsequent costs

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

(iv) Depreciation

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

Freehold and long leasehold buildings	-	2.5% 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
Quarries	-	based on rates of extraction

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

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

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

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

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

1 Accounting policies (continued)

(h) Intangible assets

(i) Goodwill

All business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group.

For acquisitions on or after 1 January 2010, the Group measures goodwill at the acquisition date as:

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

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

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

Any contingent consideration payable is recognised at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not re-measured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognised in the Consolidated Income Statement.

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

In respect of business acquisitions that have occurred since 1 January 2004 but before 1 January 2010, goodwill represents the difference between the cost of the acquisition and the fair value of the net identifiable assets and contingent liabilities acquired. The classification and accounting treatment of business combinations that occurred prior to 1 January 2010 were not adjusted in preparing the Group's opening IFRS balance sheet at 1 January 2010.

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

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

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

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

1 Accounting policies (continued)

(h) Intangible assets (continued)

(ii) Research and development

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

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

(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 is systematically tested for impairment at each balance sheet date. Other intangible assets are amortised from the date they are available for use. The rates applied are as follows:

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

(i) Trade and other receivables

Trade and other receivables are stated at their nominal amount (discounted if material) less impairment losses (see accounting policy 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 to completion and of selling expenses.

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

(k) Cash and cash equivalents

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

1 Accounting policies (continued)

(l) Impairment

(i) Impairment review

The carrying amounts of the Group's assets, other than inventories (see accounting policy j) and deferred tax assets (see accounting policy 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 and then, to reduce the carrying amount of the other assets in the unit on a pro rata basis. A cash generating unit is the group of assets identified on acquisition that generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

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

(ii) Reversals of impairments

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

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

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

(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.

1 Accounting policies (continued)

(o) Pension schemes

(i) Defined benefit schemes

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

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

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

(ii) Defined contribution schemes

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

(p) Share-based payment transactions

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

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

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

(q) Own shares held by Employee Benefit Trust

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

(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, it can be measured reliably and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

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

1 Accounting policies (continued)

(s) Trade and other payables

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

(t) Revenue

Revenue from the sale of goods is recognised in the Consolidated Income Statement upon the despatch of goods, when the significant risks and rewards of ownership of the goods have been transferred to the buyer. Revenue represents the invoiced value of sales to customers less returns, allowances and value added tax.

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

(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 lease.

(ii) Finance lease payments

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

(iii) Financial expenses

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

(v) Income tax

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

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

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

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

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

(w) Segment reporting

Following the introduction of IFRS 8 *"Operating Segments"*, effective for accounting periods beginning on or after 1 January 2009, the Group has determined that, based on its internal reporting framework and management structure, it has only one reportable segment. Such determination is necessarily judgemental in its nature and has been determined by management in preparing the Consolidated Financial Statements. The level of disclosure of segmental and other information is determined by such assessment. Further details of the considerations made and the resulting disclosures are provided in Note 2 below.

2 Segmental analysis

	Revenue		Operating profit before works closure costs and redemption of debenture		Operating profit	
	2010	2009	**2010**	2009	**2010**	2009
	£'000	£'000	**£'000**	£'000	**£'000**	£'000
Continuing operations	**323,104**	311,685	**11,771**	16,409	**11,771**	9,192
Financial income and expenses (net)			**(2,558)**	(4,303)	**(2,558)**	(11,562)
Profit/(loss) before tax			**9,213**	12,106	**9,213**	(2,370)

Operating segments

The Group has adopted IFRS 8 *"Operating Segments"*, with effect from 1 January 2009. IFRS 8 requires operating segments to be identified on the basis of discrete financial information about components of the Group that are regularly reviewed by the Group's Chief Operating Decision Maker ("CODM") to allocate resources to the segments and to assess their performance. The Directors concluded that, in terms of the Group's operations, the detailed requirements of IFRS 8 support the reporting of the Group's operations as a single business segment. As far as Marshalls is concerned the CODM is regarded as being the Executive Directors.

Detailed consideration has been given to the Group's overall business strategy and this is explained in detail in the Business Review on pages 6 to 24. The fundamental strategic objectives remain as follows:

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

These strategic objectives increasingly require the CODM to view the business on a national and a Group level. The Group's national manufacturing plan is structured around a series of production units throughout the United Kingdom, in conjunction with a single logistics and distribution operation. A National planning process supports sales to both of the Group's key end markets, namely the Domestic and Public Sector and Commercial end markets and the Group's operating assets produce and deliver a range of broadly similar products that are sold into each of these end markets. The focus is on the one integrated production, logistics and distribution network supporting both end markets and operating and financial information is available for the one combined integrated logistics and distribution network. Whilst KPI information is available to the CODM from the different functional areas of the business, "performance assessment" and "resource allocation" continue to be addressed on a Group basis. The Group's structure and strategy mean that business performance is focussed on production efficiency, logistics and distribution efficiency, the performance of customers and operational planning. These are completely inter-dependent and are undertaken on a fully integrated basis, not in isolation.

For these reasons, and on the basis of the strategy, structure and nature of its business, and having considered the specific requirements of IFRS 8, the Directors have concluded that the Group has one operating segment. In order to assist the reader of the Annual Report some revenue information has been presented in the Business Review relating to the Group's Domestic and Public Sector and Commercial end markets.

	2010	2009
	£'000	£'000
Geographical destination of revenue:		
United Kingdom	**320,303**	308,498
Rest of the world	**2,801**	3,187
	323,104	311,685

All revenue originates in the United Kingdom from continuing operations. Included within revenue is £nil (2009: £704,000) relating to the provision of installation services.

3 Net operating costs

		2010 £'000	2009 £'000
Raw materials and consumables		**113,562**	92,970
Changes in inventories of finished goods and work in progress		**830**	5,454
Personnel costs (Note 5)		**84,442**	84,244
Depreciation	- owned	**17,670**	18,671
	- leased	**101**	102
Amortisation of intangible fixed assets (Note 11)		**1,554**	877
Own work capitalised		**(2,194)**	(1,581)
Manufacturing overheads		**97,480**	95,879
Share of results of associates		**63**	(5)
Operating costs		**313,508**	296,611
Other operating income		**(1,754)**	(718)
Net profit on asset and property disposals		**(421)**	(617)
Net operating costs before works closure costs		**311,333**	295,276
Works closure costs (Note 4)		**-**	7,217
Net operating costs		**311,333**	302,493

	2010 £'000	2009 £'000
Net operating costs include:		
Auditors' remuneration (in respect of the audit of the Group Financial Statements)		
Marshalls plc	**20**	20
Subsidiaries	**113**	110
Other fees paid to the auditors and their associates (see below)	**19**	243
Leasing costs	**7,056**	6,934
Hire of plant and machinery	**3,992**	3,652
Research and development costs	**3,341**	2,826

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

	2010 £'000	2009 £'000
Services related to the Rights Issue (Note 21)	**-**	227
Corporation tax compliance procedures	**1**	8
Other tax services	**3**	8
Other	**15**	-
	19	243

4 Works closure costs

	2010 £'000	2009 £'000
Works closure costs	**-**	7,217

The Board determined that certain charges to the Consolidated Income Statement should be separately identified for better understanding of the Group's results for the year ended 31 December 2009.

In the year ended 31 December 2009, works closure costs reflected the impact of the closure of the concrete manufacturing operations at Llay and other capacity reductions.

Works closure costs include the write off of inventories and plant and equipment amounting to £nil (2009: £632,000) and £nil (2009: £2,128,000) respectively.

5 Personnel costs

Personnel costs (including Directors):	2010 £'000	2009 £'000
Wages and salaries	**74,359**	74,067
Social security costs	**7,537**	7,554
Share based expenses (Note 19)	**250**	245
Contributions to defined contribution section of the Pension Scheme	**2,296**	2,378
Included within net operating costs (Note 3)	**84,442**	84,244
Personnel costs (including redundancy) included in works closure costs (Note 4)	**-**	1,134
Total personnel costs	**84,442**	85,378

Details of Directors' remuneration, share options, long term incentive plans and Directors' pension entitlements are disclosed in the Directors' Remuneration Report on pages 51 to 67.

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

	2010 Number	2009 Number
Continuing operations	**2,391**	2,464

6 Financial expenses and income

	Total 2010 £'000	Before redemption of debenture 2009 £'000	Redemption of debenture 2009 £'000	Total 2009 £'000
(a) Financial expenses				
Interest expense on bank loans, overdrafts and loan notes	**2,180**	2,146	-	2,146
Interest on obligations under the defined benefit Pension Scheme	**12,293**	10,952	-	10,952
Debenture interest expense	**-**	2,136	-	2,136
Redemption of debenture	**-**	-	7,259	7,259
Finance lease interest expense	**6**	13	-	13
	14,479	15,247	7,259	22,506
(b) Financial income				
Expected return on Scheme assets under the defined benefit Pension Scheme	**11,917**	10,847	-	10,847
Interest receivable and similar income	**4**	97	-	97
	11,921	10,944	-	10,944

Details of the redemption of the debenture are set out in Note 17 on page 99.

7 Income tax expense/(credit)

	Total 2010 £'000	Before works closure costs and redemption of debenture 2009 £'000	Works closure costs and redemption of debenture 2009 £'000	Total 2009 £'000
Current tax expense				
Current year	**1,889**	3,297	(3,297)	-
Adjustments for prior years	**(506)**	(2,955)	-	(2,955)
	1,383	342	(3,297)	(2,955)
Deferred taxation expense				
Origination and reversal of temporary differences:				
Current year	**1,047**	1,278	(756)	522
Adjustments for prior years	**(567)**	815	-	815
Income tax expense/(credit) in the Consolidated Income Statement	**1,863**	2,435	(4,053)	(1,618)

7 Income tax expense (continued)

Reconciliation of effective tax rate

	2010 %	2010 £'000	2009 %	2009 £'000
Profit/(loss) before tax	**100.0**	**9,213**	100.0	(2,370)
Tax using domestic corporation tax rate	**28.0**	**2,580**	28.0	(664)
Disallowed amortisation of intangible assets	**4.7**	**435**	(10.4)	246
Net items not taxable	**8.1**	**746**	(39.7)	940
Adjustments for prior years	**(11.6)**	**(1,073)**	90.4	(2,140)
Impact of the change in the rate of corporation tax on deferred taxation	**(9.0)**	**(825)**	-	-
	20.2	**1,863**	68.3	(1,618)

The net amount of deferred taxation debited to the Consolidated Statement of Comprehensive Income in the year was £7,520,000 (2009: £15,630,000 credited).

The Emergency Budget on 22 June 2010 announced that the UK corporation tax rate will reduce from 28 per cent to 24 per cent over a period of 4 years from 2011. The first reduction in the UK corporation tax rate from 28 per cent to 27 per cent was substantively enacted in July 2010 and will be effective from 1 April 2011. This will reduce the Company's future current tax charge accordingly. The announced further 3 per cent rate reduction will further reduce the Company's future current tax charge and reduce the Company's deferred tax liabilities/assets.

8 Earnings per share

Basic earnings per share of 3.76 pence (2009: 0.42 pence loss) per share is calculated by dividing the profit attributable to ordinary shareholders from total operations of £7,350,000 (2009: £752,000 loss) by the theoretical ex-rights weighted average number of shares in issue during the year of 195,462,449 (2009: 179,596,717).

For the year ended 31 December 2009 basic earnings per share before works closure costs and redemption of debenture of 5.38 pence per share is calculated by dividing the profit before works closure costs and redemption of debenture of £9,671,000 by the theoretical ex-rights weighted average number of shares in issue during the year of 179,596,717.

Profit/(loss) attributable to ordinary shareholders

	2010 £'000	2009 £'000
Profit attributable to ordinary shareholders before 2009 works closure costs and redemption of debenture	**7,350**	9,671
Works closure costs and redemption of debenture (net of taxation)	**-**	(10,423)
Profit/(loss) attributable to ordinary shareholders:	**7,350**	(752)

Weighted average number of ordinary shares

	2010 Number	2009 Number
Number of issued ordinary shares (at beginning of the year)	**199,378,755**	143,106,254
Weighted average number of Rights Issue shares	**-**	40,282,221
Effect of shares transferred into employee benefit trust	**(1,491,306)**	(1,366,758)
Effect of treasury shares acquired	**(2,425,000)**	(2,425,000)
Weighted average number of ordinary shares at end of period	**195,462,449**	179,596,717

8 Earnings per share (continued)

For the year ended 31 December 2010 diluted earnings per share of 3.69 pence per share is calculated by dividing the profit attributable to ordinary shares and potentially dilutive ordinary shares of £7,350,000 by the theoretical ex-rights weighted average number of shares in issue during the period of 195,462,449 plus potentially dilutive shares of 3,916,306 which totals 199,378,755.

For the year ended 31 December 2009 the potential ordinary shares are considered to be anti-dilutive to the total earnings per share calculation.

For the year ended 31 December 2009 diluted earnings per share before works closure costs and redemption of debenture of 5.28 pence per share is calculated by dividing the profit attributable to ordinary shares and potentially dilutive ordinary shares of £9,671,000 by the theoretical ex-rights weighted average number of shares in issue during the period of 179,596,717 plus potentially dilutive shares of 3,737,128 which totals 183,333,845.

Weighted average number of ordinary shares (diluted)

	2010 **£'000**	2009 £'000
Weighted average number of ordinary shares	**195,462,449**	179,596,717
Effect of shares transferred into employee benefit trust	**1,491,306**	1,194,754
Effect of treasury shares acquired in the period	**2,425,000**	2,542,374
Weighted average number of ordinary shares (diluted)	**199,378,755**	183,333,845

9 Dividends

After the balance sheet date dividends of 3.50 pence per qualifying ordinary share (2009: 3.50 pence) were proposed by the Directors. The dividends have not been provided for and there were no income tax consequences. The total dividends proposed in respect of the year are as follows:

	Pence per qualifying share	**2010** **£'000**	2009 £'000
2010 final	**3.50**	**6,863**	
2010 interim	**1.75**	**3,431**	
	5.25	**10,294**	
2009 final	3.50		6,863
2009 interim	1.75		3,447
	5.25		10,310

9 Dividends (continued)

The following dividends were approved by the shareholders and recognised in the period.

	Pence per qualifying share (restated)	2010 £'000	2009 £'000
2010 interim	**1.75**	**3,431**	
2009 final	**3.50**	**6,863**	
	5.25	**10,294**	
2009 interim	1.75		3,447
2008 final	1.30		2,013
	3.05		5,460

The 2010 final dividend of 3.50 pence per qualifying ordinary share, total value £6,863,000, will be paid on 8 July 2011 to shareholders registered at the close of business on 10 June 2011.

The 2008 final dividend per share has been adjusted by the "bonus factor" inherent in the Rights Issue and was previously 1.45 pence per qualifying ordinary share.

10 Property, plant and equipment

Cost	Land and buildings £'000	Quarries £'000	Plant, machinery and vehicles £'000	Total £'000
At 1 January 2009	91,909	27,824	296,752	416,485
Additions	1,121	-	6,956	8,077
Disposals	(2,641)	-	(1,697)	(4,338)
At 31 December 2009	90,389	27,824	302,011	420,224
At 1 January 2010	**90,389**	**27,824**	**302,011**	**420,224**
Additions	**1,421**	**233**	**7,364**	**9,018**
Disposals	**(4,341)**	**-**	**(12,587)**	**(16,928)**
Reclassification	**(3,484)**	**3,484**	**-**	**-**
At 31 December 2010	**83,985**	**31,541**	**296,788**	**412,314**

10 Property, plant and equipment (continued)

Depreciation and impairment losses	Land and buildings £'000	Quarries £'000	Plant, machinery and vehicles £'000	Total £'000
At 1 January 2009	28,405	3,954	167,238	199,597
Depreciation charge for the year	3,371	477	14,925	18,773
Disposals	(1,538)	-	(1,306)	(2,844)
Impairment losses	143	-	1,985	2,128
At 31 December 2009	30,381	4,431	182,842	217,654
At 1 January 2010	**30,381**	**4,431**	**182,842**	**217,654**
Depreciation charge for the year	**2,320**	**662**	**14,789**	**17,771**
Disposals	**(1,635)**	**-**	**(12,103)**	**(13,738)**
Reclassification	**(1,470)**	**1,470**	**-**	**-**
At 31 December 2010	**29,596**	**6,563**	**185,528**	**221,687**
Net Book Value				
At 1 January 2009	63,504	23,870	129,514	216,888
At 1 January 2010	60,008	23,393	119,169	202,570
At 31 December 2010	**54,389**	**24,978**	**111,260**	**190,627**

In view of the fact that the development of the Group's mineral reserves and the acquisition of appropriate quarries have become a key part of the Group's strategy, commencing in 2009; quarries (representing mineral reserves including associated land) have been separately disclosed under the caption of "quarries".

The carrying amount of tangible fixed assets includes £nil (2009: £338,000) in respect of assets held under finance leases.

Group cost of land and buildings and plant and machinery includes £543,000 (2009: £593,000) and £2,245,000 (2009: £2,132,000) respectively for assets in the course of construction.

Capital commitments

	2010 £'000	2009 £'000
Capital expenditure that has been contracted for but for which no provision has been made in the Consolidated Financial Statements	**730**	1,964

11 Intangible assets

Cost	Goodwill £'000	Customer relation-ships £'000	Supplier relation-ships £'000	Patents, trademarks and know-how £'000	Development costs £'000	Software £'000	Total £'000
At 1 January 2009	43,173	2,210	2,400	2,605	159	2,336	52,883
Additions	-	-	-	-	-	1,085	1,085
At 31 December 2009	43,173	2,210	2,400	2,605	159	3,421	53,968
At 1 January 2010	**43,173**	**2,210**	**2,400**	**2,605**	**159**	**3,421**	**53,968**
Additions	**-**	**-**	**-**	**-**	**-**	**2,940**	**2,940**
At 31 December 2010	**43,173**	**2,210**	**2,400**	**2,605**	**159**	**6,361**	**56,908**
Amortisation and impairment losses							
At 1 January 2009	8,912	509	628	1,018	37	428	11,532
Amortisation for the year	-	148	134	142	8	445	877
At 31 December 2009	8,912	657	762	1,160	45	873	12,409
At 1 January 2010	**8,912**	**657**	**762**	**1,160**	**45**	**873**	**12,409**
Amortisation for the year	**-**	**148**	**134**	**139**	**8**	**1,125**	**1,554**
At 31 December 2010	**8,912**	**805**	**896**	**1,299**	**53**	**1,998**	**13,963**
Carrying amounts							
At 1 January 2009	34,261	1,701	1,772	1,587	122	1,908	41,351
At 1 January 2010	34,261	1,553	1,638	1,445	114	2,548	41,559
At 31 December 2010	**34,261**	**1,405**	**1,504**	**1,306**	**106**	**4,363**	**42,945**

All goodwill has arisen from business combinations. The carrying amount of goodwill is allocated across Cash Generating Units ("CGUs") and these CGUs are independent sources of income streams and represent the lowest level within the Group at which the associated goodwill is monitored for management purposes. The Group tests goodwill annually for impairment, or more frequently if there are indications that goodwill might be impaired.

The recoverable amounts of the CGUs are determined from value in use calculations and at both 31 December 2010 and 31 December 2009 the full amount of goodwill in the Group balance sheet related to the Landscape Products CGU. These calculations use cash flow projections based on a combination of individual financial five year forecasts and appropriate long term growth rates of between 2 and 3 per cent. To prepare value in use calculations, the cash flow forecasts are discounted back to present value using an appropriate market-based discount rate. The pre-tax discount rates used to calculate the value in use range from 9.4 per cent to 11.1 per cent (2009: 10.2 per cent to 11.7 per cent), with the pre-tax discount rate used for the Landscape Products CGU being 11.1 per cent (2009: 11.7 per cent). The Directors have reviewed the recoverable amounts of the CGUs and do not consider that any reasonable change in the assumptions would give rise to the need for further impairment.

Included in software additions is £956,000 (2009: £703,000) of own work capitalised.

11 Intangible assets (continued)

Amortisation charge

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

	2010	2009
	£'000	£'000
Net operating costs (Note 3)	**1,554**	877

12 Investment in associates

	£'000
Carrying value	
At 1 January 2010	2,118
Additions	108
Share of results of associates	(63)
At 31 December 2010	2,163

	2010	2009
	£'000	£'000
Investment at cost	**2,290**	2,182
Share of results of associates	**(127)**	(64)
Carrying value at 31 December	**2,163**	2,118

On 21 January 2010 the Group acquired a 24 per cent stake in Delta Bloc UK Limited, a traffic management business. The results, assets and liabilities are included in these Consolidated Financial Statements using the equity method of accounting.

The Group's share of results of associates in the year ended 31 December 2010 was £63,000 loss (2009: £5,000 profit) and, on the grounds of materiality, no additional disclosure has been made.

13 Inventories

	2010 £'000	2009 £'000
Raw materials and consumables	**9,522**	9,253
Finished goods and goods for resale	**72,104**	72,934
	81,626	82,187

Inventories stated at fair value less cost to sell at 31 December 2010 amounted to £5,596,000 (2009: £4,925,000). The write down of inventories made during the year amounted to £910,000 (2009: £1,509,000). There were no reversals of inventory write downs made in previous years either in 2010 or 2009.

14 Trade and other receivables

	2010 £'000	2009 £'000
Trade receivables	**19,151**	21,325
Other receivables	**2,987**	4,773
Prepayments and accrued income	**5,787**	5,169
	27,925	31,267

Ageing of trade receivables

	2010 £'000	2009 £'000
Less than 30 days	**10,742**	12,624
31 - 60 days	**7,675**	7,394
61-90 days	**664**	845
More than 90 days	**70**	462
	19,151	21,325

No receivables were due after more than one year. All amounts disclosed above are considered recoverable and no material amounts are regarded as overdue.

15 Cash and cash equivalents

	2010 £'000	2009 £'000
Bank balances	**4,056**	9,279
Cash in hand	**3**	4
Cash and cash equivalents in the Consolidated Cash Flow Statement	**4,059**	9,283

16 Trade and other payables

	2010 £'000	2009 £'000
Current liabilities		
Trade payables	**31,983**	28,373
Taxation and social security	**4,968**	4,226
Other payables	**3,703**	7,020
Accruals	**7,652**	13,626
Financial Liabilities	**246**	3
	48,552	53,248

All trade payables are due in six months or less.

17 Loans

	2010 £'000	2009 £'000
Current liabilities		
Bank loans	**40,900**	20,000
Finance lease liabilities	**-**	39
	40,900	20,039
Non current liabilities		
Bank loans	**30,000**	58,400

Debenture Stock

On 10 December 2009, the Group's subsidiary, Marshalls Group Limited, completed the redemption of the £20 million 11.375 per cent Debenture Stock 1992/2014. The total redemption cost was £27,259,000 (including costs) and the redemption premium of £7,259,000 was disclosed as an exceptional financing cost.

Bank loans

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

Finance lease liabilities

	Minimum lease payment 2010 £'000	Interest 2010 £'000	Principal 2010 £'000	Minimum lease payment 2009 £'000	Interest 2009 £'000	Principal 2009 £'000
Less than one year	**-**	**-**	**-**	45	6	39

18 Financial instruments

The Group holds and uses financial instruments to finance its operations and to manage its interest rate, liquidity and currency risks. The Group primarily finances its operations using share capital, retained profits and borrowings. The Group's bank loans are non-equity funding instruments and further details of which are set out in Note 17.

As directed by the Board the Group does not engage in speculative activities using derivative financial instruments. Group cash reserves are held centrally to take advantage of the most rewarding short term investment opportunities. Forward foreign currency contracts are used in the management of currency risk.

The main risks arising from the Group's financial instruments are interest rate risk, liquidity risk and exchange rate risk. The Board reviews and agrees the policies for managing each of these risks and they have remained unchanged since 2009.

Capital management

The Group manages its medium term bank debt to ensure continuity of funding and the policy is to arrange funding ahead of requirements and to maintain sufficient undrawn committed facilities.

From time to time the Group purchases its own shares on the market. The timing of these purchases depends on market prices. Primarily the shares are intended to be used for issuing shares under the Group's Long Term Incentive Plan. Buy and sell decisions are made on a specific transaction basis by the Board.

Financial risks

The Group has exposure to a number of financial risks through the conduct of its operations. Risk management is governed by the Group's operational policies, guidelines and authorisation procedures which are outlined in the Business Review on pages 21 to 24. The key financial risks resulting from financial instruments are liquidity risk, interest rate risk, credit risk and foreign currency risk.

(a) Liquidity risk

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

(b) Interest rate risk

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

75 per cent of core debt is covered by interest rate swaps of varying maturities up until 2014, which reflects the maturity date of the related loans, in accordance with Group policy. The Group classifies its interest rate swaps as cash flow hedges and states them at fair value. The fair value of interest rate swaps is £232,000 (2009: £nil) and is adjusted against the hedging reserve on an ongoing basis.

The period that the swaps cover is intended to fix the impact on the Income Statement. During the year £494,000 (2009: £nil) has been recognised in Other Comprehensive Income for the year with £262,000 (2009: £nil) being reclassified from equity to the Income Statement. The Interest rate swaps have been fully effective in the period.

18 Financial instruments (continued)

Financial risks (continued)

(c) Credit risk

Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed on all customers requiring credit over a certain amount and, where appropriate, credit insurance cover is obtained.

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

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

(d) Foreign currency risk

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

The Group's policy is to cover all significant foreign currency commitments in respect of trade receivables and trade payables by using forward foreign currency contracts. Most of the forward exchange 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 hedging forecasted transactions as cash flow hedges and states them at fair value. The fair value of forward exchange contracts is £14,000 (2009: £3,000) and is adjusted against the hedging reserve on an ongoing basis. At 31 December 2010 all outstanding forward exchange contracts have a maturity date within six months.

Other risks

Further information about the Group's strategic and financial risks is contained in the Business Review on pages 21 to 24.

Sensitivity analysis

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

18 Financial instruments (continued)

Effective interest rates and maturity of liabilities

At 31 December 2010 there were £nil (2009: nil) Group borrowings on a fixed rate. Interest rate swaps have been taken out with the intention to fix the interest on 75 per cent of the Group's core debt. The interest rate profile of the financial liabilities were:

31 December 2010	Fixed or variable rate	Effective interest rate %	Total **£'000**	6 months or less **£'000**	6-12 months **£'000**	1-2 years **£'000**	2-5 years **£'000**
Cash and cash equivalents	Variable	2.37	**(4,059)**	**(4,059)**	**-**	**-**	**-**
Bank loans	Variable	2.37	**70,900**	**-**	**40,900**	**25,000**	**5,000**
			66,841	**(4,059)**	**40,900**	**25,000**	**5,000**

31 December 2009	Fixed or variable rate	Effective interest rate %	Total £'000	6 months or less £'000	6-12 months £'000	1-2 years £'000	2-5 years £'000
Cash and cash equivalents	Variable	2.89	(9,283)	(9,283)	-	-	-
Bank loans	Variable	2.89	78,400	-	20,000	33,400	25,000
Finance lease liabilities	Variable	7.5	39	39	-	-	-
			69,156	(9,244)	20,000	33,400	25,000

At 31 December the undiscounted outstanding contractual payments (including interest) of financial liabilities was as follows:

31 December 2010	Total **£'000**	6 months or less **£'000**	6-12 months **£'000**	1-2 years **£'000**	2-5 years **£'000**
Bank loans	**72,164**	**515**	**41,227**	**25,412**	**5,010**
Trade payables	**31,983**	**31,983**	**-**	**-**	**-**
Financial Liabilities	**1,091**	**246**	**234**	**381**	**230**
	105,238	**32,744**	**41,461**	**25,793**	**5,240**

31 December 2009	Total £'000	6 months or less £'000	6-12 months £'000	1-2 years £'000	2-5 years £'000
Bank loans	80,066	507	20,378	33,937	25,244
Financial lease liabilities	39	39	-	-	-
Trade payables	28,373	28,373	-	-	-
	108,478	28,919	20,378	33,937	25,244

The outstanding contractual payments (including interest) in relation to operating leases are disclosed in Note 23.

18 Financial instruments (continued)

Borrowing facilities

The total bank borrowing facilities at 31 December 2010 amounted to £168.4 million (2009: £168.4 million) of which £97.5 million (2009: £90.0 million) remained unutilised. There are additional seasonal bank working capital facilities of £20.0 million available between 1 February and 31 August each year. The undrawn facilities available at 31 December 2010, in respect of which all conditions precedent had been met, were as follows:

	2010	2009
	£'000	£'000
Committed:		
- Expiring in one year or less	**7,500**	-
- Expiring in more than two years but not more than five years	**65,000**	65,000
Uncommitted:		
- Expiring in one year or less	**25,000**	25,000
	97,500	90,000

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

	Facility	Cumulative Facility
	£'000	£'000
Committed facilities:		
Q3 2014	20,000	20,000
Q1 2013	50,000	70,000
Q4 2012	25,000	95,000
Q3 2011	48,400	143,400
On demand facilities:		
Available all year	25,000	168,400
Seasonal (February to August inclusive)	20,000	188,400

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 2010 are shown below:

	2010		2009	
	Book amount	**Fair Value**	Book amount	Fair Value
	£'000	**£'000**	£'000	£'000
Trade and other receivables	**27,925**	**27,925**	31,267	31,267
Cash and cash equivalents	**4,059**	**4,059**	9,283	9,283
Bank loans	**(70,900)**	**(65,618)**	(78,400)	(70,306)
Finance lease liabilities	**-**	**-**	(39)	(39)
Trade and other payables	**(48,306)**	**(48,306)**	(53,245)	(53,245)
Interest rate swaps and forward contracts	**(246)**	**(246)**	(3)	(3)
Financial assets/(liabilities) - net	**(87,468)**		(91,137)	
Other assets/(liabilities) – net	**285,708**		272,236	
	198,240		181,099	

18 Financial instruments (continued)

Fair vallues of financial assets and financial liabilities (continued)

Estimation of fair values

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

(a) Derivatives

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

(b) Interest-bearing loans and borrowings

Fair value is calculated based on the expected future principal and interest cash flows discounted at the relevant rate.

(c) Finance lease liabilities

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

(d) Trade and other receivables/payables

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

(e) Fair value hierarchy

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

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

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

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

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
31 December 2010				
Derivative financial liabilities	-	**246**	-	**246**
31 December 2009				
Derivative financial liabilities	-	3	-	3

19 Employee benefits

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

	2010	2009	2008	2007	2006
	£'000	£'000	£'000	£'000	£'000
Present value of funded obligations	**(212,394)**	(221,895)	(167,312)	(194,782)	(209,152)
Fair value of Scheme assets	**208,302**	183,939	183,813	176,987	167,207
(Net liability)/surplus in the Scheme for defined benefit obligations (see below)	**(4,092)**	(37,956)	16,501	(17,795)	(41,945)
Experience adjustments on Scheme liabilities	**14,332**	(51,099)	31,184	17,749	4,988
Experience adjustments on Scheme assets	**13,658**	(4,903)	(3,530)	33	5,501

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

	2010	2009
	£'000	£'000
(Net liability)/surplus for defined benefit obligations at 1 January	**(37,956)**	16,501
Contributions received	**6,600**	1,650
Loss recognised in the Consolidated Income Statement	**(376)**	(105)
Actuarial gains/(losses) recognised in the Consolidated Statement of Comprehensive Income	**27,640**	(56,002)
Net liability in the Scheme for the defined benefit obligations at 31 December	**(4,092)**	(37,956)

(Expense)/income recognised in the Consolidated Income Statement

	2010	2009
	£'000	£'000
Interest on obligations (financial expenses)	**(12,293)**	(10,952)
Expected return on Scheme assets (financial income)	**11,917**	10,847
	(376)	(105)

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

	2010	2009
	£'000	£'000
Cumulative amount at 1 January	**(36,068)**	19,934
Recognised in the year	**27,640**	(56,002)
Cumulative amount at 31 December	**(8,428)**	(36,068)

19 Employee benefits (continued)

Liabilities for defined benefit obligations

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

	2010	2009
Discount rate (AA corporate bond rate)	**5.5%**	5.8%
Inflation (RPI)	**3.4%**	3.5%
Inflation (CPI)	**2.7%**	-
Future pension increases	**2.7%**	3.5%
Expected return on Scheme assets	**5.8%**	6.5%
Future expected lifetime of pensioner at age 65 (years):		
Male:	**20.6**	20.5
Female:	**23.8**	23.5

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

	2010 £'000	2009 £'000
Benefit obligation at 1 January	**221,895**	167,312
Interest cost	**12,293**	10,952
Actuarial (gain)/deficit	**(1,907)**	51,099
Actuarial gain due to automatic change to CPI for deferred revaluation and pension increases	**(12,075)**	-
Benefits paid	**(7,812)**	(7,468)
Benefit obligation at 31 December	**212,394**	221,895

In response to the statement issued on 8 July 2010 by the Minister for Pensions regarding the Government's intention to use the Consumer Prices Index ("CPI") rather than the Retail Prices Index ("RPI") as the inflation measure to determine pension increases linked to statutory indices, the Directors have had regard to the Accounting Standard Board's Urgent Issues Task Force Information Sheet No. 48 which they believe is appropriate guidance to apply under IAS 19. The Directors have reviewed the rules of the Scheme and they specify that pensions in deferment and pensions in payment will increase in line with the annual statutory order published by the UK Government. Hence the Directors have concluded that it is appropriate to regard the change from RPI to CPI as a change in actuarial assumptions in respect of deferred pension and pensions in payment entitlements. The resulting reduction in the present value of Scheme liabilities of £12,075,000 arising from this change in actuarial assumptions is recorded as an actuarial gain in the Statement of Comprehensive Income.

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

	2010 £'000	2009 £'000
Fair value of Scheme assets at 1 January	**183,939**	183,813
Expected return on Scheme assets	**11,917**	10,847
Actuarial gain/(loss)	**13,658**	(4,903)
Employer contribution	**6,600**	1,650
Benefits paid	**(7,812)**	(7,468)
Fair value of Scheme assets at 31 December	**208,302**	183,939

19 Employee benefits (continued)

The Directors estimate that in the year ending 31 December 2011, employer contributions amounting to £6.6 million will be paid into the Pension Scheme.

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

	2010		2009	
	£'000	**%**	£'000	%
Equities	**84,889**	**40**	75,275	41
Bonds	**4,233**	**2**	4,958	2
Cash	**1,073**	**1**	845	1
Insured pensioners	**1,394**	**1**	1,438	1
Liability driven investments	**116,713**	**56**	101,423	55
	208,302	**100**	183,939	100

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

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

Sensitivity analysis

The Group continues to be subject to various financial risks in relation to the Pension Scheme, principally the volatility of the discount (AA corporate bond) rate, any downturn in the performance of equities and increases in the longevity of members. The sensitivity to the AA corporate bond rate is broadly that, all other things being equal, a 0.1 per cent movement in the discount rate is equivalent to a movement of approximately £3.5 million in Scheme liabilities. This sensitivity would be offset very substantially by a movement in Scheme assets where the change in the AA corporate bond yield is simply a movement in line with fixed interest securities in general. The sensitivity to inflation is broadly that, all other things and being equal, a 0.1 per cent movement is equivalent to a movement in the Scheme liabilities of broadly £1.5 million, although this would also be offset almost entirely by a movement in Scheme assets. As far as mortality is concerned an increase of one year in life expectancy would, all other things being equal, give rise to an increase in Scheme liabilities of approximately £6.5 million. Risk management remains a core theme of the Group's Pension Scheme strategy and the recent transfer of a proportion of Scheme assets from equities to liability driven investments is a further example of an action that has reduced volatility and risk.

Share-based payments

Share-based payment awards have been made during the year in accordance with the rules of the Marshalls plc 2005 Long Term Incentive Plan (the "LTIP"). The LTIP rules provide for the award of Matching Shares and Performance Shares subject, in the case of Matching Shares, to participants investing a stated percentage of their annual bonus in the LTIP. The minimum investment by Executive Directors is 50 per cent of annual bonus until they have reached the share ownership targets set by the Board; thereafter they may choose to invest annual bonus on a voluntary basis. The annual bonus investment is used to purchase Investment Shares to qualify for a Matching Share award, subject to defined limits. In addition, Performance Shares may be awarded to participants without requiring a qualifying investment.

Both Matching Shares and Performance Shares are subject to the achievement of a three year performance target. The awards lapse if the performance target is not met over the three year vesting period. Matching Share awards are dependent on an improvement in reported earnings per share, while Performance Share awards are dependent on an improvement in reported earnings per share and operating cash flow, each measured using International Financial Reporting Standards. The Remuneration Committee may exercise its discretion with regard to the effect of one off items. Full details of the performance criteria are set out in the Directors' Remuneration Report on pages 51 to 67.

19 Employee benefits (continued)

The Performance and Matching Shares take the form of options which are settled by physical delivery of shares. All options have been adjusted for the "bonus factor" inherent in the Rights Issue. The exercise price is nil in relation to any of these grants and there is no entitlement to dividends during the vesting period. There are no market conditions associated with these instruments.

	Number of instruments	Date of grant	Vesting period
Equity settled awards granted to Directors of Marshalls plc	1,610,704	12 March 2009	3 years
	893,821	11 March 2010	3 years
	722,688	11 March 2010	3 years
Equity settled awards granted to employees of Marshalls Group Limited	1,346,543	12 March 2009	3 years
	307,814	11 March 2010	3 years
	773,110	11 March 2010	3 years
	5,654,680		

	Weighted average share price at date of grant (pence per share) 2010	**Number of options 2010**	Weighted average share price at date of grant (pence per share) 2009	Number of options 2009
Outstanding at 1 January	**122**	**3,992,839**	288	1,544,069
Granted	**91**	**2,697,433**	78	2,642,776
Lapsed	**222**	**(1,035,592)**	346	(619,201)
Rights Issue adjustment	**-**	**-**	-	425,195
Outstanding at 31 December	**84**	**5,654,680**	122	3,992,839

There were no share options exercised or that expired during the period. None of the options were exercisable at 31 December 2010.

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

	19 March 2010 grant	11 March 2010 grant	12 March 2009 grant	13 March 2008 grant	10 March 2008 grant
Fair value at grant date (pence per share)	79	75	65	220	216
Share price on date of grant (pence per share)	94	89	78	248	249
Expected volatility used in the modelling under the Black-Scholes valuation model	65.0%	65.0%	50.0%	14.0%	14.0%
Dividend yield	6.0%	6.0%	6.0%	4.0%	4.0%
Risk-free interest rate (based on national government bonds)	2.0%	2.0%	1.75%	5.25%	5.25%

The Company's share price at 31 December 2010 was 104.75p

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

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

	2010 £'000	2009 £'000
Awards granted and total expense recognised as employee costs	**250**	245

Further details in relation to the Directors are set out in the Directors' Remuneration Report on pages 51 to 67.

19 Employee benefits (continued)

Employee Profit Sharing Scheme

At 31 December 2010 the scheme held 42,414 (2009: 42,414) ordinary shares in the Company.

20 Deferred taxation

Recognised deferred taxation assets and liabilities

	Assets		Liabilities	
	2010	2009	**2010**	2009
	£'000	£'000	**£'000**	£'000
Property, plant and equipment	**-**	-	**(18,879)**	(20,393)
Intangible assets	**-**	-	**(1,305)**	(1,481)
Inventories	**-**	-	**(1,131)**	(941)
Employee benefits	**1,104**	10,627	**-**	-
Equity settled share based expenses	**67**	69	**-**	-
Other items	-	-	**(2,253)**	(2,278)
Tax assets/(liabilities)	**1,171**	10,696	**(23,568)**	(25,093)

The deferred taxation asset of £1,104,000 (2009: £10,627,000) in relation to employee benefits is in respect of the net deficit for the defined benefit obligations of £4,092,000 (2009: £37,956,000 net deficit) (Note 19) calculated at 27 per cent (2009: 28 per cent).

Movement in temporary differences

Year ended 31 December 2010

	1 January 2010 £'000	Recognised in income £'000	Recognised in equity £'000	**31 December 2010 £'000**
Property, plant and equipment	(20,393)	1,514	-	**(18,879)**
Intangible assets	(1,481)	176	-	**(1,305)**
Inventories	(941)	(190)	-	**(1,131)**
Employee benefits	10,627	(2,060)	(7,463)	**1,104**
Equity settled share based expenses	69	(2)	-	**67**
Impact on equity of the change in rate of deferred tax	-	-	(123)	**(123)**
Other items	(2,278)	82	66	**(2,130)**
	(14,397)	(480)	(7,520)	**(22,397)**

Year ended 31 December 2009

	1 January 2009 £'000	Recognised in income £'000	Recognised in equity £'000	31 December 2009 £'000
Property, plant and equipment	(20,176)	(217)	-	(20,393)
Intangible assets	(1,506)	25	-	(1,481)
Inventories	(872)	(69)	-	(941)
Employee benefits	(4,620)	(433)	15,680	10,627
Pension contributions	712	(712)	-	-
Equity settled share based expenses	-	69	-	69
Other items	(2,228)	-	(50)	(2,278)
	(28,690)	(1,337)	15,630	(14,397)

21 Capital and reserves

	Issued and paid up 2010 £'000	2009 £'000
At 1 January	**49,845**	35,777
Issued in the period	**-**	14,068
At 31 December	**49,845**	49,845
Number of 25 pence ordinary shares	**199,378,755**	199,378,755

A 2 for 5 Rights Issue of 56,272,501 new ordinary shares at a price of 65 pence per new ordinary share was approved by shareholders on 29 May 2009. Dealings in the new ordinary shares, fully-paid, commenced on the London Stock Exchange on 16 June 2009. Net proceeds of the Rights Issue were £34.0 million, net of £2.6 million expenses. An amount of £19,961,000 (net of expenses) was credited to the share premium account in respect of this issue.

Consolidation reserve

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

Dividends

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

	2010 £'000	2009 £'000
3.50 pence (2009: 3.50 pence) per ordinary share	**6,863**	6,863

22 Analysis of net debt

	1 January 2010 £'000	Cash flow £'000	Other changes £'000	31 December 2010 £'000
Cash at bank and in hand	9,283	(5,224)	-	**4,059**
Debt due within one year	(20,000)	-	(20,900)	**(40,900)**
Debt due after one year	(58,400)	7,500	20,900	**(30,000)**
Finance leases	(39)	39	-	**-**
	(69,156)	2,315	-	**(66,841)**

Reconciliation of Net Cash Flow to Movement in Net Debt

	2010 £'000	2009 £'000
Net (decrease)/increase in cash and cash equivalents	**(5,224)**	8,745
Cash outflow from increase in debt and lease financing	**7,539**	33,429
Movement in net debt in the period	**2,315**	42,174
Net debt at 1 January	**(69,156)**	(111,330)
Net debt at 31 December	**(66,841)**	(69,156)

23 Operating leases

The Group had commitments under non-cancellable operating leases in respect of property, plant and machinery as follows:

31 December 2010	Total	6 months or less	6-12 months	1-2 years	2-5 years	More than 5 years
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Expiring:						
within one year	**1,459**	**202**	**1,257**	**-**	**-**	**-**
between two and five years	**15,312**	**-**	**-**	**1,434**	**13,878**	**-**
in more than five years	**16,330**	**-**	**-**	**-**	**-**	**16,330**
	33,101	**202**	**1,257**	**1,434**	**13,878**	**16,330**

31 December 2009	Total	6 months or less	6-12 months	1-2 years	2-5 years	More than 5 years
	£'000	£'000	£'000	£'000	£'000	£'000
Expiring:						
within one year	923	96	827	-	-	-
between two and five years	22,425	-	-	3,893	18,532	-
in more than five years	19,530	-	-	-	-	19,530
	42,878	96	827	3,893	18,532	19,530

Certain leased properties have been sublet by the Group. Sublease payments of £32,764 (2009: £47,370) are expected to be received during the following financial year. An amount of £48,730 (2009: £63,438) was recognised as income in the Consolidated Income Statement within net operating costs in respect of subleases.

24 Contingencies

The Royal Bank of Scotland Group plc has issued on behalf of Marshalls plc, irrevocable letters of credit totalling £2,400,000 (2009: £2,400,000) in respect of the Group's employers liability insurance cover with Mitsui Sumitomo Insurance (London Management) Limited. These sums relate to the Group's cap on self insurance in relation to the periods ending between 31 October 2005 and 31 October 2011 inclusive.

25 Related parties

Identity of related parties

The Group has a related party relationship with its Directors.

Transactions with key management personnel

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

Directors of the Company and their immediate relatives, control 0.45 per cent (2009: 0.50 per cent) of the voting shares of the Company.

25 Related parties (continued)

In addition to their salaries, the Group also provides non-cash benefits to Directors, and contributes to a defined contribution pension scheme on their behalf. Further details in relation to Directors are disclosed in the Directors' Remuneration Report on pages 51 to 67.

26 Accounting estimates and judgements

Management discussed with the Audit Committee the development, selection and disclosure of the Group's critical accounting policies and estimates and the application of these policies and estimates. The accounting policies are set out in Note 1 on pages 79 to 87.

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

In relation to the Group's intangible fixed assets (Note 11) impairment tests have been undertaken using commercial judgement and a number of assumptions and estimates in relation to relevant trading volumes and margins. These estimates have been determined using the best available information derived from a combination of business specific analysis (both current and historic) and the latest available external industry forecasts. Determining whether goodwill is impaired requires an estimation of the value in use of the CGUs to which goodwill has been allocated. The value in use calculation involves an estimation of the future cash flows of CGUs and also the selection of appropriate discount rates in order to calculate present values.

Note 18 contains information about the assumptions and their risk factors relating to interest rate and foreign currency exposures. The principal risk relates to interest rates. Sensitivity analysis is disclosed in Note 18 on page 101.

Note 19 contains information about the principal actuarial assumptions used in the determination of defined benefit pension obligations. These key assumptions include discount rates, the expected return on net assets, inflation rates and mortality rates and have been determined following advice received from a qualified independent Actuary. Sensitivity analysis is disclosed in Note 19 on page 107.

Note 20 contains details of the Group's deferred taxation. Liabilities recognised are determined by reference to the likelihood of settlement and the likelihood that assets are received is based on assumptions of future actions.

Company Balance Sheet

at 31 December 2010

	Notes	2010 £'000	2009 £'000
Fixed assets			
Investments	30	**338,598**	338,469
Current assets			
Debtors	31	**25,736**	37,597
Cash at bank and in hand		**-**	338
Net current assets		**25,736**	37,935
Net assets		**364,334**	376,404
Capital and reserves			
Called up share capital	33	**49,845**	49,845
Share premium account	34	**22,695**	22,695
Own shares	34	**(9,514)**	(9,472)
Capital redemption reserve	34	**75,394**	75,394
Equity reserve	34	**258**	129
Profit and loss account	34	**225,656**	237,813
Equity shareholders' funds		**364,334**	376,404

Approved at a Directors' meeting on 11 March 2011.
On behalf of the Board:

D.G. Holden
Chief Executive

I.D. Burrell
Finance Director

The Notes on pages 114 to 118 form part of these Company Financial Statements.

Company Reconciliation of Movements in Shareholders' Funds

for the year ended 31 December 2010

	2010 £'000	2009 £'000
Loss for the financial year	**(1,984)**	(2,091)
Equity dividends	**(10,294)**	(5,460)
Deficit for the financial year	**(12,278)**	(7,551)
Shares issued	**-**	36,588
Share issue costs	**-**	(2,559)
Purchase of own shares	**(42)**	-
Share based expenses	**250**	245
Net (reduction in)/additons to shareholders' funds	**(12,070)**	26,723
Shareholders' funds at beginning of year	**376,404**	349,681
Shareholders' funds at end of year	**364,334**	376,404

The Notes on pages 114 to 118 form part of these Company Financial Statements.

Notes to the Company Financial Statements

27 Accounting policies

The following paragraphs summarise the main accounting policies of the Company, which have been applied consistently in dealing with items which are considered material in relation to the Company's Financial Statements. The Company is exempt from the requirement to give its own disclosures as the entity forms part of the Consolidated Financial Statements of Marshalls plc which has included disclosures under IFRS 7 - *"Financial Instruments: Disclosures"*.

(a) Basis of preparation

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

Under Section 408 of the Companies Act 2006 the Company is exempt from the requirement to present its own profit and loss account.

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

As these Parent Company Financial Statements are presented together with the Consolidated Financial Statements, the Company has taken advantage of the exemption contained in FRS 8 and has therefore not disclosed transactions or balances with wholly owned 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 74 to 112.

(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.

27 Accounting policies (continued)

(c) Pension costs

Defined benefit scheme

The Company participates in a Group wide Pension Scheme providing benefits based on final pensionable pay. The defined benefit section of the Scheme was closed to future service accrual in July 2006. The assets of the Scheme are held separately from those of the Company. The Company is unable to identify its share of the underlying assets and liabilities of the Scheme on a consistent and reasonable basis and therefore, as required by FRS 17 - *"Retirement benefits"*, accounts for the Scheme as if it were a defined contribution scheme.

Defined contribution scheme

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

(d) Share-based payment transactions

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

The long term incentive plan allows Company employees to acquire shares of Marshalls plc. The fair value of options granted to Company employees is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options. The fair value of the options granted is measured using an option valuation model, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest. Where the Company grants options over its own shares to the employees of its subsidiaries it recognises an increase in the cost of investment in its subsidiaries equivalent to the equity-settled share-based payment charge recognised in its subsidiaries' financial statements with the corresponding credit being recognised directly in equity.

(e) Own shares held by employee benefit trust

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

(f) Cash and liquid resources

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

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

(g) Leased assets

The rental cost of all operating leases is charged to the Profit and Loss Account on a straight line basis over the lives of the leases.

(h) Current tax

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

(i) Deferred taxation

Full provision is made for deferred taxation resulting from timing differences, other than those specifically excluded by FRS 19 - *"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.

27 Accounting policies (continued)

(j) Financial guarantees

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

(k) Dividends

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

28 Operating costs

The audit fee for the Company was £20,000 (2009: £20,000). This is in respect of the audit of the Financial Statements. Fees paid to the Company's auditors for services other than the statutory audit of the Company are not disclosed in the Notes to the Company Financial Statements since the consolidated accounts of the Group are required to disclose non-audit fees on a consolidated basis.

29 Ordinary dividends: equity shares

	2010		2009	
	per share	**£'000**	per share	£'000
2009 Final: paid 2 July 2010	**3.50p**	**6,863**	1.30p	2,013
2010 Interim: paid 3 December 2010	**1.75p**	**3,431**	1.75p	3,447
	5.25p	**10,294**	3.05p	5,460

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.

	2010	2009
	£'000	£'000
3.50 pence (2009: 3.50 pence) per ordinary share	**6,863**	6,863

30 Investments

	£'000
At 1 January 2010	338,469
Additions	129
At 31 December 2010	**338,598**

Investments comprise shares in the subsidiary undertaking, Marshalls Group Limited. The Directors have considered the carrying value of the Company's investment and are satisfied that no provision is required.

The increase in the year of £129,000 represents an adjustment to the number of shares expected to vest in respect of LTIP awards granted to employees of Marshalls Group Limited.

30 Investments (continued)

The principal wholly owned subsidiary undertakings of Marshalls plc at 31 December 2010 are set out below. All the companies operate within the United Kingdom and are registered in England and Wales.

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

* held by subsidiary undertaking

31 Debtors

	2010 £'000	2009 £'000
Amounts owed by subsidiary undertakings	**24,963**	36,782
Corporation tax	**771**	813
Other debtors	**2**	2
	25,736	37,597

No debtors were due after more than one year.

32 Deferred taxation

There is no deferred taxation in the Company.

33 Share capital

As at 31 December 2010, the issued and fully paid up share capital was as follows:

	Issued and paid up			
	2010 Number	**2010 Nominal Value £'000**	2009 Number	2009 Nominal Value £'000
At 1 January	**199,378,755**	**49,845**	143,106,254	35,777
Issued in the period	**-**	**-**	56,272,501	14,068
At 31 December	**199,378,755**	**49,845**	199,378,755	49,845

On 29 May 2009 a 2 for 5 Rights Issue of 56,272,501 new ordinary shares at a price of 65 pence per new ordinary share was approved by shareholders. Dealings in the new ordinary shares, fully-paid, commenced on the London Stock Exchange on 16 June 2009. Net proceeds of the Rights Issue were £34.0 million, net of £2.6 million expenses. An amount of £19,961,000 was credited to the share premium account in respect of this issue.

Disclosures regarding share-based payments are given in Note 19 on pages 107 to 109.

34 Share capital and reserves

	Ordinary share capital £'000	Share premium account £'000	Own shares £'000	Capital redemption reserve £'000	Equity reserve £'000	Profit and loss account £'000
At 1 January 2010	49,845	22,695	(9,472)	75,394	129	237,813
Share-based expenses	-	-	-	-	129	121
Purchase of own shares	-	-	(42)	-	-	-
Loss for the financial year (net of dividends)	-	-	-	-	-	(12,278)
At 31 December 2010	**49,845**	**22,695**	**(9,514)**	**75,394**	**258**	**225,656**

35 Capital and leasing commitments

The Company had no capital or leasing commitments at 31 December 2010 or 31 December 2009.

36 Bank facilities

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

37 Contingent liabilities

The Royal Bank of Scotland Group plc has issued, on behalf of Marshalls plc, irrevocable letters of credit totalling £2,400,000 (2009: £2,400,000) in respect of the Group's employers liability insurance cover with Mitsui Sumitomo Insurance (London Management) Limited. These sums relate to the Group's cap on self insurance in relation to the periods ending between 31 October 2005 and 31 October 2011 inclusive.

38 Pension scheme

The Company is the sponsoring employer of the Marshalls plc Pension Scheme (the "Scheme") which has both a defined benefit and a defined contribution section. The assets of the Scheme are held in separately managed funds which are independent of the Group's finances. As set out in Note 19 the Group introduced a new defined contribution section to the Scheme to replace the existing defined benefit section which closed to future service accrual on 1 July 2006.

Full details of the Scheme are provided in Note 19. The Company is unable to identify its share of the Scheme assets and liabilities on a consistent and reasonable basis. Accordingly, as permitted by FRS 17 - *"Retirement benefits"*, the Scheme has been accounted for in these Company Financial Statements as if the Scheme was a defined contribution scheme.

The latest funding valuation of the Scheme was carried out as at 6 April 2010 and was updated for FRS 17 purposes to 31 December 2010 by a qualified independent Actuary. Certain employees are members of the company defined contribution scheme which invests funds in which the contributions for each individual member are separately identifiable and the benefits calculated accordingly.

The Group deficit on an FRS 17 basis at 31 December 2010 was £4,092,000 (2009: £37,956,000).

Shareholder Information

Shareholder analysis at 31 December 2010

Size of Shareholding	*Number of Shareholders*	*%*	*Number of Ordinary Shares*	*%*
1 to 500	2,050	38.4	316,788	0.2
501 to 1,000	655	12.3	490,133	0.2
1,001 to 2,500	1,010	18.8	1,703,132	0.9
2,501 to 5,000	673	12.6	2,392,974	1.2
5,001 to 10,000	400	7.5	2,826,004	1.4
10,001 to 25,000	219	4.1	3,341,992	1.7
25,001 to 100,000	159	3.0	7,716,030	3.9
100,001 to 250,000	64	1.2	9,775,192	4.9
250,001 to 500,000	32	0.6	11,837,656	5.9
500,001 and above	78	1.5	158,978,854	79.7
	5,340	100.0	199,378,755	100.0

Financial calendar

Preliminary Announcement of results for the year ended 31 December 2010	Announced	11 March 2011
Annual General Meeting		11 May 2011
Final dividend for the year ended 31 December 2010	Payable	8 July 2011
Half - yearly results for the year ending 31 December 2011	Announcement	26 August 2011
Half - yearly dividend for the year ending 31 December 2011	Payable	2 December 2011
Results for the year ending 31 December 2011	Announcement	Early March 2012

Registrars and general

All administrative enquiries relating to shareholdings should, in the first instance, be directed to Computershare Investor Services PLC, The Pavilions, Bridgwater Road, Bristol BS99 6ZZ, telephone: 0870 707 1134, 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 2006 £'000	Year to December 2007 £'000	Year to December 2008 £'000	Year to December 2009 £'000	**Year to December 2010 £'000**
Revenue	378,100	402,926	378,063	311,685	**323,104**
Net operating costs	(330,339)	(354,116)	(347,447)	(295,276)	**(311,333)**
Operating profit (before works closure costs, goodwill and intangible asset impairments)	47,761	48,810	30,616	16,409	**11,771**
Works closure costs, goodwill and intangible asset impairments	-	-	(26,989)	(7,217)	**-**
Operating profit	47,761	48,810	3,627	9,192	**11,771**
Financial income and expenses (net)	(6,058)	(6,707)	(8,154)	(4,303)	**(2,558)**
Redemption of debenture	-	-	-	(7,259)	**-**
Profit before tax (before works closure costs, goodwill and intangible asset impairments and redemption of debenture)	41,703	42,103	22,462	12,106	**9,213**
Profit / (loss) before tax	41,703	42,103	(4,527)	(2,370)	**9,213**
Income tax (expense) / credit	(12,623)	(11,852)	(1,694)	1,618	**(1,863)**
Profit/(loss) for the financial period	29,080	30,251	(6,221)	(752)	**7,350**
Financial Information					
EBITA	48,118	49,471	4,468	10,069	**13,325**
EBITDA	67,648	70,530	25,906	28,842	**31,096**
EBITA before works closure costs, goodwill and intangible asset impairments	48,118	49,471	31,457*	17,286*	**13,325**
EBITDA before works closure costs, goodwill and intangible asset impairments	67,648	70,530	52,895*	36,059*	**31,096**
Earnings per share (pence) **					
Basic: (continuing operations)	18.18	19.02	(3.98)	(0.42)	**3.76**
Basic: (before works closure costs, goodwill and intangible asset impairments and redemption of debenture)	18.18	19.02	10.38*	5.38*	**3.76**
Dividends per share (pence) - IFRS **	11.35	11.98	12.38	3.05	**5.25**
Dividend cover (times) - IFRS	1.60	1.59	0.84*	1.76*	**0.72**
Dividends per share (pence) - Traditional **	11.76	12.38	5.37	5.25	**5.25**
Dividend cover (times) - Traditional	1.55	1.54	1.94*	1.02*	**0.72**
Year end share price (pence)	355.0	241.0	90.0	86.0	**104.8**
Tax rate (%)	30.3	28.2	27.8*	20.1*	**20.2**

* before works closure costs, goodwill and intangible asset impairments and redemption of debenture
** earnings and dividends per share have been adjusted by the "bonus factor" inherent in the Rights Issue

Consolidated Balance Sheet	2006 £'000	2007 £'000	2008 £'000	2009 £'000	**2010 £'000**
Non-current assets	270,626	276,515	277,615	256,943	**236,906**
Current assets	102,568	134,004	122,577	122,737	**113,610**
Total assets	373,194	410,519	400,192	379,680	**350,516**
Current liabilities	(70,111)	(104,020)	(89,064)	(77,132)	**(94,616)**
Non-current liabilities	(118,541)	(105,858)	(117,891)	(121,449)	**(57,660)**
Net assets	184,542	200,641	193,237	181,099	**198,240**
Net borrowings	(54,606)	(96,926)	(111,330)	(69,156)	**(66,841)**
Gearing ratio	29.6%	48.3%	57.6%	38.2%	**33.7%**

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