ANNUAL REPORT 2009

Marshalls

Bespoke signage, Cabot Circus, Bristol

Financial Highlights

Results before works closure costs and redemption of debenture:

• Revenue	£311.7m
• EBITDA	£36.1m
• Operating profit	£16.4m
• Profit before tax	£12.1m
• Basic EPS*	5.38p
• Dividends declared and paid*	3.05p
• Final dividend recommended	3.50p

Reported results:

• Operating profit	£9.2m
• Loss before tax	£(2.4)m
• Basic EPS *	(0.42)p

* EPS and dividend per share have been adjusted to reflect the "bonus factor" inherent in the Rights Issue

Woodhouse Signage, Brighton Pier

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.

Cautionary Statement

Please read the full cautionary statement which can be found on page 49.

Vertical Granite Planters

CONTENTS

Chairman's Statement

Fit for the future

In my report last year I anticipated a further difficult year in 2009. In the event the economic downturn was at the worst end of our expectations, resulting in underlying daily sales revenue declining by 16.1 per cent, on a like for like basis, from the already depressed levels of 2008. This total decline in revenue has been 22.6 per cent over the past 2 years. For a modern automated manufacturer, such as we are, these declines have a pronounced impact given the high proportion of fixed costs represented by our plants. It is therefore to the credit of the management team that we produced underlying operating profits of £16.4 million in these most trying of circumstances.

Our major focus has been on ensuring that we come through the recession safely, and are well prepared to maximise benefits from an economic upturn. With this in mind it has been a good year in many respects.

Firstly, we have completed the major cost reduction programme signalled last year. In the course of the last two years we have closed four substantial plants. The resultant shape of the Group leaves us focussed on our most modern plants with installed capacity to meet historic levels of demand. Our employees also agreed to a more flexible approach to lay offs in the event of continued lack of demand, so that we may flex output levels without further major closure costs and minimise the need for further redundancies.

Secondly, we reached the end of 2009 with an extremely strong balance sheet. Shareholders provided additional funds of £34.0 million through the Rights Issue. Interest payments have also been reduced by redeeming the expensive debenture which provides additional financial headroom at a time of uncertainty. The operational team also contributed by reducing inventory levels and by tight control of capital expenditure.

Thirdly, we have continued to invest in marketing and customer relations leading to maintaining or improving our market position. This includes the important work that has been done on sustainability, where Marshalls have established wide recognition as a leading voice in construction products. This not only meets our internal ethical objectives but is of increasing importance to our customers.

We therefore face the future with the renewed enthusiasm that results from having confronted and dealt with major challenges brought about by the economic crisis. We believe that we are in the best possible shape to see out the remainder of the downturn and to benefit rapidly from the leverage that will result from improving demand thereafter.

We do see the present time as nearing the turning point of the economy. For this reason the Board have determined that it will maintain the dividend. This does signal our confidence in the long term health of the business. This turning point is also the time at which we should refresh the Board, in order that a renewed team can take the Company through the next upturn in the cycle. In accordance with good corporate governance I will step down from the Board at the AGM. I will be succeeded by Andrew Allner who has been on the Board since 2003. Andrew will provide continuity and effective leadership of the Board.

I have always regarded it a privilege to be your Chairman and reaffirm my view that this is a Company of high integrity, strong management in depth and with a very positive future as the economy improves.

Finally, I would record the appreciation of the Board to our colleagues, customers and suppliers, all of whom have shared the difficulties and contributed to the solutions through this difficult period.

Mike Davies
Chairman
5 March 2010

Silver Grey Conservation Smooth,
Telford College, Edinburgh

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 network of Regional Service Centres and two National 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

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.

Major benefits have been realised from the swift and effective actions taken in 2008 and 2009, including the closure of four manufacturing sites and the Group's Landscape Installations operations. Marshalls is now a fitter and leaner organisation and the Group is now in the process of further improving its efficiency and enhancing its relationship with customers, suppliers and installers to ensure that it maintains a strong competitive advantage when market conditions improve.

Classical Distressed White Limestone

Long Term Strategy and Business Objectives

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

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. The continued objective is to exceed the expectations of its customers in the UK Domestic and Public Sector and Commercial end markets through quality products being manufactured, 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 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 product categories to expand our core business.

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 are also being 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 stated that in 2009 the construction industry experienced its sharpest year on year fall on record at 12.1 per cent, with private housing falling by 28 per cent. The construction output reduction was magnified, however, by significant de-stocking in the supply chain. Only increased government spending on housing, education and transport infrastructure has prevented a higher overall decline. The CPA estimates that overall construction output will fall by 3.1 per cent in 2010 before returning to marginal growth in 2011 and 2012. Within the Public Sector and Commercial end market the CPA estimates that Other New Work, a proxy for demand, was down by 8.9 per cent in 2009, and predicts that falls of 3.0 per cent and 1.0 per cent will be experienced in 2010 and 2011.

Generally public sector demand remains robust and the current outlook suggests that this will continue during 2010. The commercial and industrial markets are expected to remain challenging although there is still work available and the Group has confidence in its processes for securing that work even in difficult markets. There are signs of recovery in house building 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 down 11 per cent in 2009. A further fall of 2.0 per cent is forecast for 2010 before returning to growth percentages of 4.0 per cent and 5.0 per cent in 2011 and 2012 respectively.

Despite this economic backdrop there are certain key factors affecting the Group's particular customer base that remain positive. For example, the target customer groups for installed patios and driveways continue to be typically older, with higher earnings and savings and with greater equity in their property. Other factors influencing both the Group's Public Sector and Commercial and Domestic end markets are commented on further below.

Trading Summary

Marshalls' revenue for the year ended 31 December 2009 was £311.7 million (2008: £378.1 million) from 3 fewer working days compared with 2008. On a like for like basis the underlying daily sales revenue for the full year was down 16.1 per cent with a degree of stabilisation in the second half. Sales to the Public Sector and Commercial end market, which represent approximately 58 per cent of Marshalls' sales, were down 17.5 per cent for the full year and sales to the Domestic end market were down 12.9 per cent compared to the prior year.

The sharp reduction in sales volumes is unprecedented, but the Group has responded quickly to right-size the business, yet increase its competitive advantage through selective investment and operational flexibility. There is still uncertainty surrounding the short term outlook for sales volumes, not least because of the impending election. In addition, the snow in January has led to a slower start to the year and makes it more difficult, at this stage, to establish an underlying trend. The Group has good visibility in the Public Sector and Commercial end market and, although the outlook remains challenging, comparatives are easing. After a period of significant uncertainty, the Domestic end market has stabilised with order books at 6.8 weeks in February 2010, compared with 5.6 weeks in February 2009.

Manufacturing and Distribution

Marshalls' operating strategy combines regional manufacturing and distribution sites, known as Service Centres, with national manufacturing works at which newly introduced and specialist products that may have not reached the commercial volumes to justify regional manufacture are made. The same capital equipment is used to make products for both the Public Sector and Commercial and Domestic end markets. Marshalls' geographic spread is unique amongst its competitors and during the recession competitive advantage has increased as competitors have also reduced capacity. These factors ensure that Marshalls has the lowest cost to market.

The Group acted quickly and decisively as the recession started. A wide range of actions resulted in a reduction in annual costs of approximately £11.4 million. These included the closure of four manufacturing sites since June 2008, which is now complete, and this resulted in annual costs savings of approximately £8.0 million per annum. In addition, the Landscape Installations operations were closed, saving a further £3.4 million per annum. The total reduction in numbers employed as a result of these capacity reduction initiatives (including the works closures referred to above) has been approximately 400, representing 14 per cent of the Group total. The Group continues to balance the need for significant reductions in the cost base with ongoing innovation to drive long term growth. The operational focus is now to optimise the Group's "lowest cost to market" operating model and this is expected to deliver further operating cost efficiencies over the next two years.

Greater flexibility has been introduced, both on the upside by having the capacity to operate additional shifts and on the downside by utilising a lay off agreement that has been put in place with employees. The Group has retained the capability to increase output when market demand improves without having to undertake any significant capital expenditure.

The Group's plants are modern and well invested and this has enabled capital expenditure to be reduced significantly without any noticeable impact on the effectiveness of the business. Capital investment in 2009 totalled £9.2 million (2008: £22.0 million). This compares to a depreciation charge of £18.8 million (2008: £21.4 million). The Group will continue to invest selectively in innovation to deliver new products and improvement projects with a short payback period. Therefore, despite a reduction in capital spending, modern polishing equipment was installed during the year at the Group's Brookfoot site. This will enable the Group to launch a new range of high quality polished paving into the UK market. Investment in innovation continues as this is critical to the long term success of the business.

Customer service remains a high priority area. The customer service index KPI measures product availability, accuracy and timeliness of deliveries as well as administrative accuracy. The Group's industry leading standards remained high in 2009 giving a combined customer service measure of 97 per cent (2008: 97 per cent).

The Group expects to realise cash from its disposal of a small number of surplus properties, including the sites that have recently been closed. The timing of sales continues to be dependent on suitable planning permissions being obtained. During 2009 £2.4 million was realised from property disposals and applied towards reducing debt. The Group will keep its property portfolio under review in order to identify further opportunities.

Sustainability and the Environment

Legislative developments and lifestyle trends are influencing the market place by placing greater emphasis on sustainability and carbon reduction. Marshalls' paving has a carbon footprint that is one seventh that of asphalt, the main competitor product.

Surface water run-off and flooding is also of increasing concern, with recent planning legislation in this area. The Group now has a full range of permeable paving and surface drainage products which are aesthetically pleasing and do not require planning permission.

Marshalls has pioneered machine lay of paving in the UK which speeds up installation and minimises health and safety risk. The Group has an established training facility and special products developed for this method of working.

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" has recently been launched which combines 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.

Alton Victorian White Cedar

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. 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.

Consumer confidence has shown some recovery from its low point in July 2008, although overall CPA forecasts for Private Housing Repair & Maintenance show an expected volume reduction of 2.0 per cent in 2010.

The Marshalls Register of approved installers, independent contractors who have satisfied Marshalls' quality and training criteria, comprises around 1,500 installation teams around the country. Sales resource in this area has been increased and the Group continues to invest in lead generation, sales training and marketing support. The number of installation teams on the Register has increased by 4 per cent during 2009. The Group is responding to the more difficult market conditions by providing additional support to Marshalls' registered installers in order to build loyalty for the future.

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 facilitate 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 this year's Chelsea Flower Show although Marshalls will no longer be headline sponsor. The sponsorship has provided excellent media coverage and 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.

Marshalls has been recognised as one of the UK's leading business-to-business brands by Superbrands UK Limited, having been awarded Business Superbrand status for 2010. Marshalls is featured in the 2010 Superbrands Annual.

Avant-Garde Caramel

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.

An important part of Marshalls' strategy is the development of an integrated product offering for the Public Sector and Commercial end market. In response to market demand, and working closely with architects, designers and contractors, the Group offers fully integrated solutions that combine natural stone and concrete paving, linear drainage, bollards, seating and attractively designed lighting. The Group has experienced technical and sales teams focussed on the key growth areas and by working with clients, architects and contractors they are able to provide a unique overview of the project and offer a complete solution comprising a full suite of products.

There are signs of recovery in house building and Olympic-related demand is increasing as the event comes closer. Looking forward beyond 2010, the Group has continued to develop its marketing approach to focus on the specific development of project areas, such as education and rail, to demonstrate the full range of solutions on offer. This is unique in the industry and has been very well received.

Many projects have a lead time of two to three years. The Group has deliberately retained its experienced technical and sales teams whilst some competitors have cut back. 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

Bespoke signage, Cabot Circus, Bristol 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.

Historically, Barbour ABI forecasts have provided a reliable picture of future demand. They consolidate planning information for all the sub sectors requiring hard landscaping. On average, there is a 12 month lag between contracts being awarded and the landscape products being required, so provides 12 month advance information on likely future demand.

During the recession, some projects were delayed. Encouragingly, there are signs of delayed projects now commencing. 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 has just started to take product after a delay of 12 months. This project will use Marshalls Machine Lay Keyblok product. Marshalls has pioneered machine lay paving in the UK which speeds up installation and minimises health and safety issues.

The current Barbour ABI forecasts show demand reducing slightly during 2010 which supports the CPA forecasts for 2009 and 2010.

The Group 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 and crushed aggregates.

Mineral Reserves

	Reserves tonnes (m) 2009	**Reserves years 2009**	Reserves tonnes (m) 2008	Reserves years 2008
Block stone	**8.7**	**58**	9.0	66.0
Aggregates	**48.4**	**27**	50.8	25.0

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

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 23 to 25 outline 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 page 27 to 31.

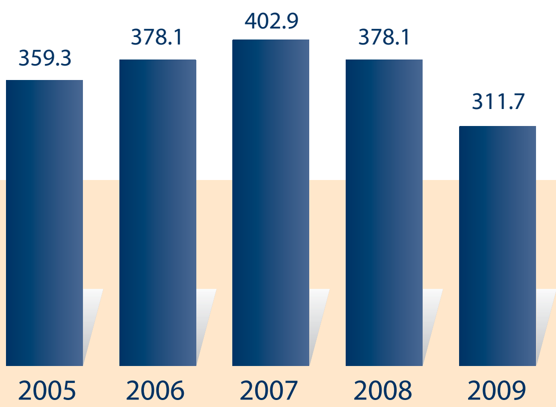
Research and Development

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.

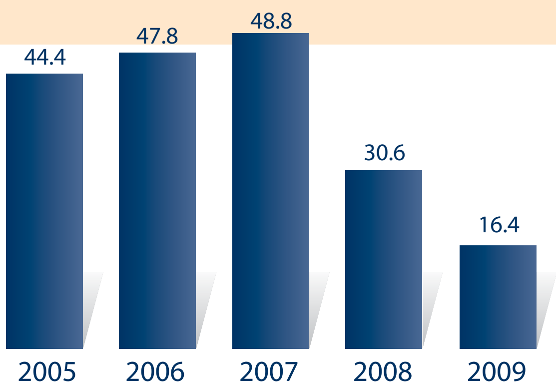
Innovation in all areas of the business over an extended period has been a key element of the Group's success and significant resources will continue to be invested in Research and Development in the future. As disclosed in Note 3 on page 83, research and development expenditure in the year ended 31 December 2009 amounted to £2,826,000 (2008: £3,671,000).

Financial History

Revenue (£'m)

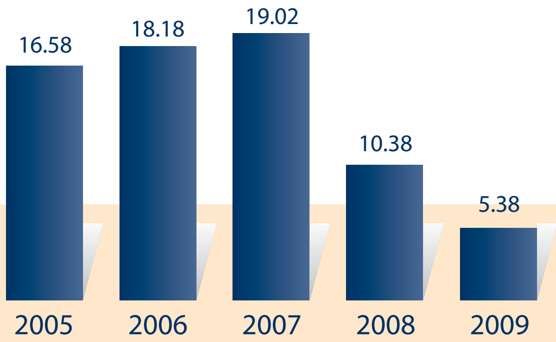


Operating profit (£'m) *



Motis shelters

Basic earnings per share (pence) *



* Operating profit and basic earnings per share are disclosed before works closure costs, goodwill and intangible asset impairments and the redemption of the debenture. Earnings per share have been adjusted by the "bonus factor" inherent in the Rights Issue.

As at 31 December 2009 the Company's share price was 86.0 pence per share. When dividends are included this gives a negative total shareholder return ("TSR") of 59 per cent over a five year performance period reflecting the depth of the recession. A performance graph has been disclosed on page 61 showing the Group's TSR compared with the FTSE 250 Index and the FTSE Small Cap Index.

Financial Review of 2009

Revenue for the year ended 31 December 2009 was £311.7 million (2008: £378.1 million). Like for like revenue fell by 16.1 per cent with a further fall of 1.5 per cent due to 2009 having three fewer trading days and an element of de-stocking by builders merchants. This has been offset partially by a small positive impact from acquisitions. There was an improvement in the second six months of 2009 as, at the half year, like for like revenue showed a decrease of 19.3 per cent. This reduction in the rate of decline in the second half of 2009 was despite very wet working conditions in November and snow in December, which prematurely ended the year for installations.

Escofet Twig Benches

Revenue		Change
	£'m	**%**
2008	378.1	
Working days (3 fewer in 2009)	(4.7)	
	373.4	
Acquisition	0.9	**0.2**
Merchant de-stocking	(2.4)	**(0.6)**
Organic	(60.2)	**(16.1)**
2009	**311.7**	**(16.5)**

Sales volumes were down by 19.1 per cent, reflecting the poor economic conditions, with sales price rises and mix giving an increase of 3.0 per cent. In the Public Sector and Commercial end market sales volumes were down 22 per cent and sales price and mix were up by 4 per cent. In the Domestic end market sales volumes were down 16 per cent and sales price and mix were up by 3 per cent.

Underlying operating profit	**2009**	2008
	£'m	£'m
Operating profit: before works closure costs	**16.4**	30.6
Works closure costs	**(7.2)**	(17.7)
Goodwill and intangible asset impairments	**-**	(9.3)
Operating profit: reported	**9.2**	3.6
EBITA*	**17.3**	31.4
EBITDA*	**36.1**	52.8

* excludes closed sites, capacity reductions and Managed Installations

EBITDA, before works closure costs, goodwill and intangible asset impairments, was £36.1 million (2008: £52.8 million) and operating profit, on the same basis, was £16.4 million (2008: £30.6 million). In 2009, works closure costs were £7.2 million relating to the closure of the Llay site and further capacity reductions. After works closure costs, goodwill and intangible asset impairments, reported operating profit was £9.2 million (2008: £3.6 million).

The cash outflow from the 2009 works closure charge of £7.2 million will be £4.4million, comprising redundancy, site decommissioning, plant and asset relocations. The remaining charge of £2.8 million relates to non-cash plant and asset write-offs. Over the past eighteen months, the Group has closed four operational sites and reduced overall manufacturing capacity by approximately 21 per cent, giving rise to a fall in both variable and fixed costs. In addition, capacity has been reduced at other sites on a temporary basis by reducing shifts and mothballing individual plants. This is equivalent to a further reduction in capacity of around 13 per cent.

The site closure programme is now complete and, including the impact of closing the Managed Installations operations, is expected to deliver annualised fixed cost savings of 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 £6 million in 2008 and a further £3 million in 2009 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, before works closure costs, goodwill and intangible asset impairments and the redemption of the debenture was 5.38 pence (2008: 10.38 pence) per share. The 2008 comparative earnings per share has been adjusted by the "bonus factor" inherent in the Rights Issue.

Margin Analysis

	Revenue £'m	Movement in Operating profit £'m	Margin Impact %
2008	378.1	30.6	8.1
Working days (3 fewer in 2009)	(4.7)	(1.4)	(0.3)
	373.4	29.2	7.8
Sales volume (inc. merchant de-stocking)	(73.9)	(23.7)	(6.0)
Cost increases recovered in sales prices	11.3	1.0	0.3
Cost savings from works closures *	-	9.9	3.2
Acquisition	0.9	-	-
2009	**311.7**	**16.4**	**5.3**

* Includes closed sites, capacity reductions and Managed Installations

Operational gearing is around 30 per cent and the fall in sales volume has reduced operating profit by £23.7 million and margin by 6.0 per cent. There were cost increases of £10.3 million in 2009 and these were recovered through sales price increases of £11.3 million. Cost savings from works closures are £9.9 million in 2009 (2008: £1.5 million) and, when markets improve, 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, before works closure costs, was £16.4 million with a resulting operating margin of 5.3 per cent (2008: 8.1 per cent).

Analysis of revenue by end market

	2009 £'m	2008 £'m	Change %
Domestic	**130.0**	156.4	(16.9)
Public Sector and Commercial	**181.6**	221.7	(18.1)
Total	**311.6**	378.1	(17.6)
Overall percentage			
Domestic	**41.7%**	41.4%	
Public Sector and Commercial	**58.3%**	58.6%	

The Public Sector and Commercial end market now comprises approximately 58 per cent of the Group revenue. Like for like revenue showed a decrease of 18.1 per cent in the year. Sales to the Domestic end market fell by 16.9 per cent.

Fairstone Sawn Step, Antique Silver Multi

Portico Canopy, Harrop Fold High School, Salford

Financial KPIs

The key financial KPIs are set out on page 8. Performance against these targets has been significantly affected by the severe economic recession that has impacted the UK economy and therefore the Group's markets. Measured at 31 December 2009, 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 6.2 per cent (2006-2009) 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 70.4 per cent (2006-2009), 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 10.9 per cent (2006-2009).

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

  ROCE for 2009 was 6.9 per cent which is compared with the long term target of 20.0 per cent (before works closure costs, goodwill and intangible asset impairments).

To support these, short term KPIs were set with a particular focus on cash management in 2009. These were met in full.

Net Financial Expenses

Net financial expenses, before redemption of the debenture, were reduced significantly to £4.3 million (2008: £8.2 million). This was due mainly to the lower interest rates on bank borrowings but also to lower levels of debt. Interest cover, on an accounting basis and before works closure costs, goodwill and intangible asset impairments, was 3.8 times (2008: 3.8 times).

On 10 December 2009, the Group's subsidiary, Marshalls Group Limited, completed the redemption of its £20 million 11.375 per cent Debenture Stock 1992/2014. The total redemption cost was £27.3 million (including costs) and the redemption premium of £7.3 million has been disclosed as an exceptional financing cost. The effect of the redemption of the debenture is expected to reduce finance charges by approximately £1.7 million in 2010.

Taxation

The tax charge for 2009, before works closure costs and the redemption of the debenture, was £2.4 million (2008: £6.3 million) which represented an effective rate of 20.1 per cent (2008: 27.8 per cent). Deferred tax of £15.7 million in relation to the actuarial loss arising on the defined benefit Pension Scheme in the year has been taken to the Consolidated Statement of Comprehensive Income.

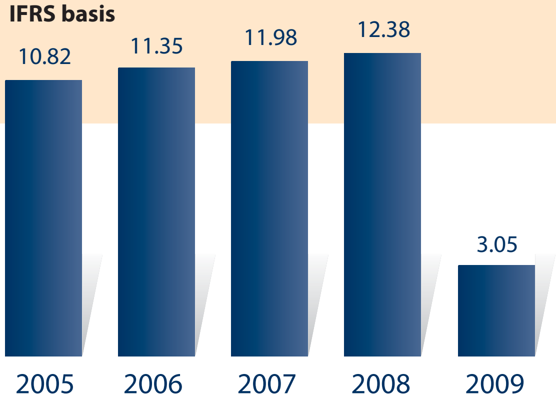
Dividends

An interim dividend of 1.75 pence (2008: 4.07 pence) per share was paid on 4 December 2009. A final dividend of 3.50 pence (2008: 1.30 pence) per share is recommended for payment on 2 July 2010 to shareholders on the register at the close of business on 4 June 2010. The ex-dividend date will be 2 June 2010. This gives a total dividend of 5.25 pence (2008: 5.37 pence) per share for the year. The comparative dividends per share have been adjusted for the "bonus factor" inherent in the Rights Issue.

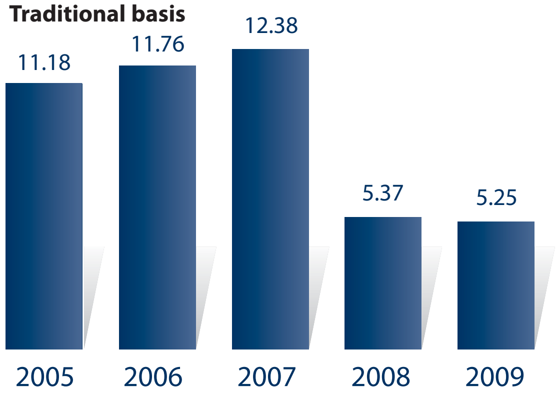
On an IFRS basis, which does not account for the final dividend until it is approved at the forthcoming Annual General Meeting, the dividend declared for the year ended 31 December 2009 was 3.05 pence (2008: 12.38 pence) per share.

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.

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.

Balance Sheet

Consolidated Balance Sheet	**2009**	2008
	£'m	£'m
Non-current assets	**256.9**	261.1
Current assets	**122.8**	122.6
Current liabilities	**(77.1)**	(89.1)
Non-current liabilities	**(83.5)**	(117.9)
	219.1	176.7
Employee benefits (before deferred tax)	**(38.0)**	16.5
Net assets	**181.1**	193.2
Net debt	**(69.2)**	(111.3)
Period end gearing	**38.2%**	57.6%

Net assets at 31 December 2009 were £181.1 million (2008: £193.2 million).

The Group continues to keep a tight control of receivables and our debtor days continue to be 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. Inventories have been managed down to £82.2 million (2008: £89.8 million), due to the positive impact of the inventory reduction programme.

Risk management has been a key focus for the Group's pension scheme over recent years. In 2000 the defined benefit section of the Scheme was closed to new entrants and in 2006 it was closed to future service accrual. During 2007, 20 per cent of the Scheme's assets were transferred from equities to liability driven investments ("LDI") to provide a closer match with the liability profile of the Scheme membership. These actions have reduced volatility and risk in financing member benefits.

During 2009 the Scheme's matching assets have, as intended, hedged the Scheme's liabilities. The last full formal actuarial valuation in 2008 showed a deficit of £36.2 million. Under the scheme specific funding requirements a recovery plan exists and the Group continues to make cash contributions into the Scheme.

The accounting valuation, however, has been much more volatile due principally to the movement in the AA corporate bond rate. The turmoil in the credit markets caused the AA corporate bond rate initially to increase significantly, leading to a fall in accounting pension liabilities. This was followed by Quantitative Easing which led to a reduction in the bond rates leading to increases in accounting pension liabilities. The accounting liabilities have increased significantly in the year due to the fall in the AA corporate bond rate from 6.7 per cent to 5.8 per cent.

The accounting impact of these market movements results in a pension obligation of £38.0 million (2008: £16.5 million surplus), resulting in an actuarial loss of £40.3 million (net of deferred taxation) (2008: £19.9 million gain) and this has been recorded in the Consolidated Statement of Comprehensive Income. The liability of £38.0 million is made up of £221.9 million in respect of the present value of funded obligations net of £183.9 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	**2009**	2008
	£'m	£'m
Bank	**69.2**	91.2
Debenture	**-**	20.0
Finance leases	**-**	0.1
	69.2	111.3
Net assets	**181.1**	193.2
Gearing	**38.2%**	57.6%

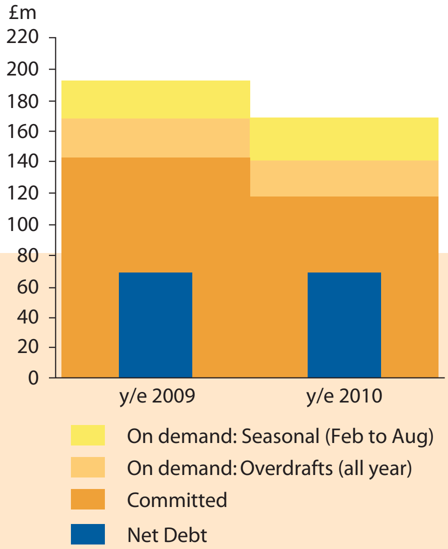
The above table shows an analysis of net debt at 31 December 2009. Net debt has reduced from £111.3 million to £69.2 million with gearing at the year end being 38.2 (2008: 57.6) per cent.

The 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 commenced on the London Stock Exchange on 16 June 2009. The proceeds of the Rights Issue were £34.0 million, net of £2.6 million expenses. An amount of £20.0 million (net of expenses) has been credited to the share premium account in respect of this issue. The objective of the Rights Issue was to provide a more conservative capital structure and to allow the Group flexibility to take advantage of strategic and value - enhancing organic opportunities which may arise.

Borrowing facilities

The Group renewed its bank facilities in August 2009 and, as illustrated in Note 18 on pages 95 and 96, has significant committed facilities in place with a positive spread of medium term maturities. The total bank borrowing facilities available to the Group at 31 December 2009 amounted to £168.4 million (2008: £166.7 million) of which £90.0 million (2008: £75.0 million) remained unutilised. In addition, the Group has a seasonal working capital facility of £20.0 million which is available between 1 February and 31 August each year. The chart opposite illustrates significant headroom in its facilities with utilisation at 31 December 2009 representing just over 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.



Cash generation

Consolidated Cash Flow	2009 £'m	2008 £'m
Net cash from operating activities (before pension contributions)	**30.4**	28.5
Pension contributions	**(2.1)**	(6.6)
Net cash from operating activities	**28.3**	21.9
Net cash from investing activities	**(7.5)**	(16.3)
Net cash from financing activities	**21.3**	(20.0)
Movement in net debt in the period	**42.1**	(14.4)
Net debt at beginning of period	**(111.3)**	(96.9)
Net debt at end of period	**(69.2)**	(111.3)

Trustone Fellstyle Quartzitic Sandstone

The Group continues to be cash generative. In the year ended 31 December 2009 the cash inflow from operating activities (before pension contributions) was £30.5 million (2008: £28.5 million). After adding back £6.9 million (2008: £6.0 million) of one-off cash expenditure in relation to works closures, cash inflow from continuing operations was £37.4 million (2008: £34.5 million), an increase of 8.3 per cent. This is an excellent result in view of the reduced sales volumes and has been achieved by a continued focus on working capital management. The Group benefited from a £3.2 million net inflow of cash on working capital in 2009 compared with a net outflow of £2.0 million in 2008. The inventory reduction programme resulted in an inflow in the year of £7.6 million.

Analysis of cash utilisation	**2009**	2008
	£'m	£'m
Cash generated from the operations	**36.6**	40.7
Works closure costs	**(6.9)**	(6.0)
Interest and taxation	**(1.4)**	(12.8)
Operational cash generation	**28.3**	21.9
Capital expenditure	**(9.2)**	(22.0)
Proceeds from sale of assets	**2.4**	11.5
Acquisitions	**(0.7)**	(6.1)
Other financial items	**0.1**	(0.3)
Rights Issue	**34.0**	-
Redemption of debenture	**(7.3)**	-
Cash returned to shareholders	**(5.5)**	(19.4)
Movement in net debt	**42.1**	(14.4)

Operational cash generation for the year ended 31 December 2009, after cash contributions to the Pension Scheme and works closure costs, was £28.3 million (2008: £21.9 million). Cash paid in relation to works closures was £6.9 million (2008: £6.0 million). The Group received tax refunds of £2.9 million during 2009 as a consequence of the works closure costs. Interest payments were almost 50 per cent lower than 2008 due mainly to lower prevailing interest rates.

The total cashflow in respect of capital expenditure and acquisitions in the year was £9.9 million (2008: £28.1 million). Acquisitions comprise £0.7 million in respect of deferred consideration for the 2008 acquisition of Gwrhyd Quarries. The remaining £9.2 million was invested in the replacement of existing assets, in business improvements and new process technology. Proceeds from the sale of surplus assets contributed £2.4 million.

Dividend payments in the year were £5.5 million (2008: £19.4 million).The Rights Issue realised proceeds of £34.0 million (net of expenses) and the premium paid to redeem the £20 million debenture was £7.3 million (including expenses).

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

Analysis of cash utilisation, 2007-2009

	£'m
Operational cash generation	91.5
Capital expenditure	(46.1)
Acquisitions	(19.7)
Pension contributions	(13.1)
Other financing items	(10.0)
	2.6
Cash returned to shareholders	(43.9)
Rights Issue	34.0
Redemption of debenture	(7.3)
Movement in net debt	(14.6)

	2006	**2009**
	£'m	**£'m**
Net debt	(54.6)	**(69.2)**
Capital employed	184.5	**181.1**
Gearing	29.6%	**38.2%**

This chart 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 £91.5 million. The Group has re-invested £46.1 million 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 £19.7 million in business acquisitions in the last three years and paid £13.1 million in pension scheme contributions. Cash generation before dividends, the impact of the Rights Issue and the redemption of the debenture has been £2.6 million over the last three years. Net debt has risen by £14.6 million, in the same period.

As explained earlier, the Group's cash generation performance against detailed cash flow targets is a strategic KPI. In 2009, 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.

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 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. 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.

Coach House Paving, Cotswold

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.

Raw Material Prices

Any significant increases in raw material and utility prices could adversely affect the Group's performance. Diversity of operations reduces the risk on any single item 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 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 2009 and 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 93 to 95. These policies have remained unchanged since 2008. 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 £4 million in the Scheme liabilities. This sensitivity would be partially offset 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 being equal, a 0.1 per cent movement is equivalent to a movement in the Scheme liabilities of broadly £2 million, although this should be partially offset 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 million. Risk management remains a core theme of the Group's Pension Scheme strategy evidenced by the transfer of a proportion of Scheme assets from equities to liability driven investments which 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 operations. 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

There is still market uncertainty, not least because of the impending election. Marshalls' response has been to build flexibility into the business, whilst retaining sufficient capacity for the medium term so that the Group can react quickly and effectively to changing market conditions.

Following the Rights Issue and the redemption of the £20 million debenture, the Group's balance sheet is strong. Marshalls has an increasingly strong brand and continues to focus on developing its innovative, modern and well invested production and materials technology, together with its efficient manufacturing and logistics network.

In a difficult market Marshalls has achieved a resilient performance and is well positioned for an upturn. The Group is managing the business tightly and has significantly reduced its cost base. Cash generation has been strong. The Group is investing selectively in the business to develop its new products and new markets, and to build on the strong Marshalls brand.

Directors' Biographical Notes

Mike Davies (62)
Non-Executive Chairman

Term of Office: Joined the Board in October 2004. Last re-elected in May 2009. He is Chairman of the Nomination Committee and a member of the Remuneration Committee. Mike Davies plans to retire from the Board at the conclusion of the next Annual General Meeting
Independent: Yes
Skills and experience: Mike Davies has considerable experience in business and a strong leadership record. He is currently Chairman of the Royal Mint and Chairman of Manchester Airports Group. He is also a Non-Executive Director of Pendragon plc.

Graham Holden (50)
Chief Executive

Term of Office: Appointed to the Board in 1992. Last re-elected in May 2007, so in accordance with the Company's constitution is retiring and standing for re-election in 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 currently chairs its Remuneration Committee. He is a member of the Yorkshire and Humber Regional Advisory Board of Business in the Community, and also serves on the Boards of the Construction Products Association and the Mineral Products Association.

Ian Burrell (52)
Finance Director

Term of Office: Appointed to the Board in June 2001. Last re-elected in May 2008.
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.

Cathy Baxandall
Group Company Secretary

David Sarti (44)
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.

Richard Scholes (64)
Non-Executive Director

Term of Office: Appointed to the Board in July 2003. Last re-elected in May 2009. He is the Senior Independent Non-Executive Director. Richard Scholes is Chairman of the Audit Committee and is a member of the Remuneration and Nomination Committees.
Independent: Yes
Skills and experience: Richard Scholes is a Chartered Accountant with extensive experience in both the financial services and manufacturing industries. He is a Non-Executive Director of Chaucer Holdings PLC and Keller Group PLC.

Andrew Allner (56)
Non-Executive Director

Term of Office: Appointed to the Board in July 2003. Last re-elected in May 2007, so in accordance with the Company's constitution is retiring and standing for re-election in 2010. He is Chairman of the Remuneration Committee and a member of the Audit and Nomination Committees. Andrew Allner will be appointed as Chairman of the Board on Mike Davies' retirement.
Independent: Yes
Skills and experience: Andrew Allner is a Chartered Accountant and a former partner of Price Waterhouse. He was previously the Group Finance Director of RHM plc and Chief Executive Officer of Enodis Plc. He is a Non-Executive Director of CSR plc, Northgate plc and The Go-Ahead Group plc, and also chairs the Audit Committees of those companies.

Bill Husselby (70)
Non-Executive Director

Term of Office: Appointed to the Board in March 2005. Last re-elected in May 2008. He is a member of the Audit, Remuneration and Nomination Committees.
Independent: Yes
Skills and experience: Founder and Chairman of Cogent Elliott Group, the independent advertising agency. Bill Husselby has more than 40 years' business experience and has held various leadership positions. He is a Supervisory Partner of Longbow Venture Capital and a Board member of the Birmingham Opera.

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 policies and practices in everything we do."

Marshalls believes that its customers, employees and wider stakeholders see the Group as leading the way in setting high standards of responsibility and sustainability in its sector. The Board takes regular account of social, environmental and ethical matters in the business of the Group. David Sarti is the Board Director responsible for managing the key elements of the Corporate Responsibility policy supported by a full time Corporate Responsibility Manager.

Marshalls is pleased to be a constituent member of the FTSE4Good UK Index. Marshalls is also 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. The Chief Executive, Graham Holden, serves on the regional Advisory Board of BITC on a voluntary basis.

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.

Copies of the 2009 Corporate Responsibility Report are available on the Company's website at www.marshalls.co.uk/sustainability.

External recognition

2009 was a year of achievement for the Group in which awards were won for sustainability, carbon labelling and supply chain ethics.

- Marketing Society Awards for Excellence 2009: Highly Commended (Ethical Marketing category). The Awards attract some of the biggest names and brands from across the UK including Sainsbury's, Sky, McDonalds and Unilever. Marshalls was recognised for its commitment to raising awareness of the need for the hard landscaping industry to monitor and improve its impact on the environment and the communities it affects.

- Sustain Magazine International Prize Award for Trade: Awarded in March 2009 for Marshalls' work to improve standards and accountability throughout the supply chain.

- PLC Awards 2009: Achievement in Sustainability Award: This award recognises accomplishments in the areas of economic, environmental and social sustainability. It was voted for by peers and so represents a very proud achievement for the Group.

- Business Commitment to the Environment Awards: 'Major Commendation' in the Environmental Leadership Awards. Marshalls was recognised for its outstanding commitment to environmental performance and sustainability.

- BITC Awards for Excellence: Recognition in the Climate Change, Eco-Efficiency and Supply Chain categories.

- BITC 'Big Tick' in the Bank of America Climate Change Award for Marshalls' work on carbon labelling and the Group's approach to minimising carbon impact. Marshalls was also re-accredited in the Supply Chain category for its work on ethical supply chain management in India, and in the Eco-Efficiency category for biodiversity and environmental management.

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

Marshalls' Sponsored School in India

Ethical Responsibilities

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

As a member of the ETI, the Group is committed to adopting the ETI Base Code on a progressive basis throughout its supply chains with specific focus on China and India. This code is based on International Labour Organisation conventions and is widely acknowledged as a model code of labour practice. The Code can be found on the ETI website 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 has recently appointed a 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.

Corporate Responsibility (continued)

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 32 to 37.

In 2009 Marshalls launched its sustainability website www.marshalls.co.uk/sustainability to provide more information on its sustainability activities.

Carbon Impact

Marshalls announced its partnership with the Carbon Trust's Carbon Labelling Company in 2007 to develop carbon labels for its products. By being one of 13 pilot partners for the carbon labelling project, Marshalls helped shape PAS 2050 methodology by testing, fine tuning and proving the effectiveness of the standard.

By the end of 2009, Marshalls had carbon labelled over 2,000 of its products. By committing to carbon labelling, Marshalls also commits to reducing the carbon footprint of every labelled product.

Marshalls achieved certification under the Carbon Trust Standard during 2009 and is well prepared for the introduction of the Government's CRC Energy Efficiency Scheme in 2010.

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 2009, Marshalls set targets for all manufacturing sites to establish a partnership with a local school or educational establishment close to their operation as part of an action plan to reinforce Marshalls' commitment to making a positive contribution to the local community. During the year, the Group made charitable donations of £41,574 (2008: £35,508) in accordance with this policy. During 2009, Marshalls' employees also donated £27,991 (2008: £26,355) 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. The aim is to ensure that, by 2010, 10,000 primary schools in the UK will have signed up to the Campaign for School Gardening. In 2009 Marshalls also entered into a partnership with Living Streets, a national charity working towards the creation of better and more people-friendly street and public spaces. 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 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.

Support Walk to Work Week

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. The Group's position on disabled employees is as stated in its Equal Opportunities Policy, namely, that it 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 are not disadvantaged in the workplace.

During the course of 2009, members of senior management who had previously attended the Marshalls Leadership Programme, run in association with Ashridge Business School, were involved in the process supporting the setting of strategic objectives for 2010 and beyond. This group is expected to participate in a number of projects during the year aimed at maximising opportunities highlighted during the strategic review process.

Communications with salaried employees were enhanced during 2009 with a series of regional meetings and in 2010 the Group plans to introduce an employee forum designed to encourage interactive, two-way communication on matters of concern to employees. This will be further supplemented with the use of employee surveys during the course of the year. 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 an employee share purchase plan that allows employees to purchase the company's shares through a monthly contribution from salary.

A temporary layoff agreement was introduced during the course of 2009 following extensive consultation with both weekly and monthly paid employees. This has provided a significant degree of flexibility, if required, in managing manufacturing output and costs and also protecting long term employment within the Company. Emphasis will also be placed on greater flexibility in terms of working practices throughout the Company. Pay levels for all employees will not be subject to increases in 2010.

Marshalls already offers a "Childcare Voucher" Scheme and a "Cycle to Work" Scheme to employees, both of which have been enthusiastically endorsed by employees. These initiatives will continue during the course of 2010 and beyond and further employee focussed benefits will be introduced as part of the Group's increasing focus on engaging directly with its employees.

Investment in training and personal development continues across the Group with initiatives in place designed to identify and nurture potential, reinforce the application of consistently good management practices and provide opportunities for succession into more senior roles. There is a continuous programme across many sites to support the development of Marshalls' employees through NVQ accreditations. As an example, during 2009 at our Marshalls' Brookfoot manufacturing site all 110 production employees gained or planned to gain NVQ Level 2 in Performing Manufacturing Operations. Nine sites have also attained Investor in People status.

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. 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 2009 the amount of production tonnage covered by systems which include accreditation to BSI-OHSAS (Occupational Health and Safety Accreditation Standard) 18001 was 93 (2008: 80) per cent.

Manual handling continues to be the Group's major health and safety risk and the policy of eliminating manual handling activities wherever practicable remains unchanged.

The provision of both general and targeted health and safety training to employees at all levels continued throughout the year. In 2009, training in corporate offences legislation for managers and behavioural safety for supervisors were key components of the training programme. In addition, the 2009 programme included the introduction of monthly production operative tool-box talks. These have proved to be very successful and will continue in the future.

Cycle Demarcation, Sale Town Hall, Manchester

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 2009 was 5 per cent lower than in 2008, and the overall reduction since 2000 has been 66 per cent.

The number of injury accidents reportable to the Health and Safety Executive ("HSE") under the Reporting of Injuries, Diseases and Dangerous Occurrence Regulations ("RIDDOR") remained the same in 2009 (53) as it was in 2008 (53). Because of the reduction in Group headcount in 2008 and early 2009, the accident rate per 1,000 employees has increased by 12 per cent against the previous year. This is a disappointing outcome, and there is an action plan in place to identify areas for attention, particularly in the management of absence and return to work processes designed to provide any employee suffering a work-related injury with appropriate support to allow a return to work as soon as they are fit. It is nonetheless encouraging that the number of accidents classed as "major injury" was almost 50 per cent lower than in 2008, well ahead of the annual target of a reduction of 10 per cent.

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 2010.

Accidents and incidents (rate per 1,000 employees)	2004	2005	2006	2007	2008	**2009**
Major injury	3.8	2.7	2.9	4.2	1.1	**0.8**
Injury resulting in over 3 absence days from work	29.2	21.9	18.5	13.5	18.0	**20.6**
All RIDDORS	33.0	24.6	21.4	17.7	19.1	**21.4**
Average UK headcount	3,222	2,884	2,746	2,804	2,774	**2,464**

Environmental Report

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 25 sites (2008:16 sites) were either upgraded or had new management systems written and implemented to comply with PAS 99, this representing 85 per cent (2008: 42 per cent) of the Group's manufacturing output.

By the end of 2009 the Group had 54 operational* sites (2008: 58). The net reduction of 4 sites includes the addition of two new Premier Mortars sites.

Of these sites:
42 (2008: 36) had ISO 9000:2000 Quality Management Systems in place representing 95 per cent (2008: 83 per cent) of the Group's manufacturing output.

28 (2008: 26) had ISO 14001:2004 for Environmental Management Systems in place representing 89 per cent (2008: 78 per cent) of the Group's manufacturing output.

30 (2008: 27) had OHSAS 18001:1999 for Health and Safety Management Systems in place representing 92 per cent (2008: 81 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 environmental KPIs were reviewed in 2009 as part of the wider sustainability agenda. The business has 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.

CARBON TRUST STANDARD

REDUCING CO2 YEAR ON YEAR

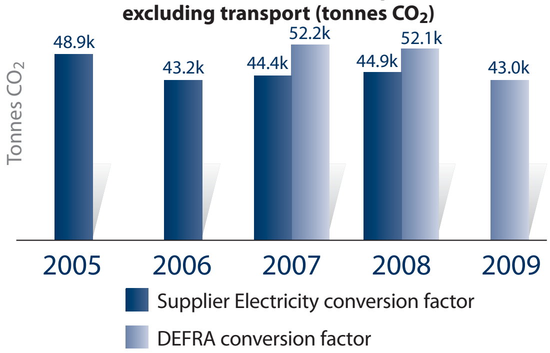
Energy

The Group is preparing for the introduction of the Government's Carbon Reduction Commitment Energy Efficiency Scheme ("CRC") in April 2010. In this context, the Group is pleased to have already demonstrated good energy management by achieving The Carbon Trust Standard.

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 represent 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 by 2,000 tonnes annually, and 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 different options.

The chart below illustrates the Group's absolute CO_2 emissions in tonnes, excluding transport activities, achieved between 2005 and 2009.

Absolute CO_2 emissions from operations excluding transport (tonnes CO_2)



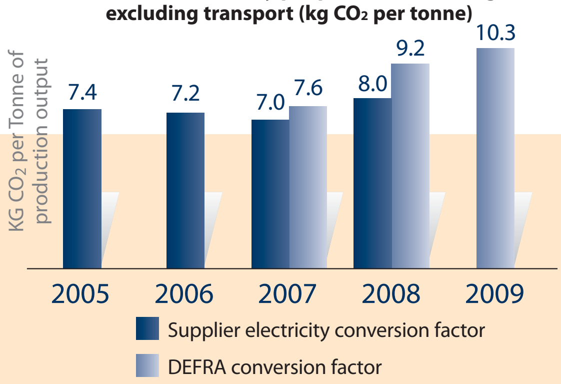
The Group moved from measuring its electricity on the basis of a supplier conversion factor to the DEFRA conversion factor in 2008, so the chart illustrates what previous year outcomes would have been using the DEFRA conversion factor. As explained in the Group's 2008 Environmental Report, the factor provided by the Group's electricity supplier reflected the mix of sources, including renewables, used to generate the suppliers' electricity, whereas the DEFRA factor allows for a greater proportion of fossil fuel based electricity generation. The 18.5 per cent reduction in the absolute CO_2 emissions, excluding transport, is the net result of fewer tonnes of production output, together with energy efficiency measures such as individual site energy plans, shut down procedures to reduce energy base loads and further employee engagement through training and communication.

The Group has plans in 2010 to investigate further energy saving opportunities in its natural stone operation with funding currently available from The Carbon Trust and the Aggregate Levy Sustainability Fund. Partial funding has been received from CO_2 Sense Yorkshire to progress with a renewable energy project at one of its sites that may have the potential to reduce the carbon intensity of the Group's heating systems.

The relative energy intensity of production output, excluding transport, has increased to 10.3 kg CO_2 per tonne produced. Factors that affected this measure in 2009 include the "core" energy demand of production and distribution sites where a down turn in production tonnage can adversely affect the emissions ratio, more heating needed in periods of cold weather, and an increase in the sales mix in favour of 'value-added' products which by their nature 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 2009.

Relative CO_2 intensity per production tonnage excluding transport (kg CO_2 per tonne)



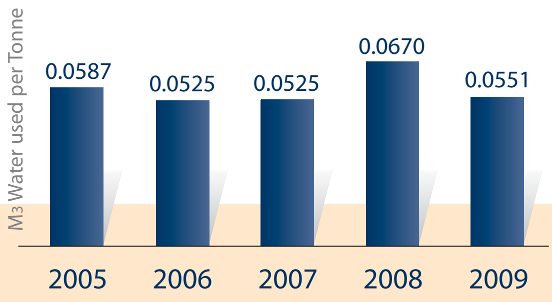
The Group voluntarily continues to submit data to the "Carbon Disclosure Project". In 2008 the Group reported 75,032 tonnes of CO_2 (2007: 68,329 tonnes amended for revised DEFRA emission factor). For 2009 the Group will report 66,119 tonnes of CO_2. This data includes scope 1 and 2 emissions as defined in the Greenhouse Gas Protocol ("GHG Protocol"). The proportion of the CO_2 emissions from transport has increased to 34 per cent. This is a consequence of increasing the proportion of deliveries using the Marshalls fleet rather than outside hauliers, resulting in a move of emissions from scope 3 to scope 1 under the GHG Protocol.

Water Use

The Group understands the future value of water and has a relevant KPI to manage this. The measure is the volume of water used in cubic metres (including office and domestic use) from controlled waters (i.e. mains and extracted water) per tonne of production output and the target is to reduce to 0.050m3 per tonne of production by 2015. The business has demonstrated a commitment to water harvesting on numerous sites and utilises quarry water where appropriate in its operations. Unlike much of the business this measure does benefit from periods of wet weather.

The chart below illustrates the Group's water performance 2005-2009.

Mains & licensed water used per tonne of production output



There was one prosecution during the year against the Group, relating to an incident at one of its quarry operations in 2008. The offence involved breach of a water discharge consent, by allowing suspended solids (naturally occurring stone dust) from a settlement lagoon to leak into a local watercourse on a single occasion connected with extreme weather. The business fully co-operated with the Environmental Agency and took immediate action to prevent any recurrence. A fine of £3,000 was levied. A similar incident that occurred in 2008 at a different quarry, and which was also noted in the 2008 Report, is expected to be the subject of a prosecution in 2010. 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. This will be the focus of increased attention during 2010.

Transport

There has been an increase of 14.7 per cent of the Group's haulage being undertaken in-house. The Marshalls fleet is modern, mostly with Euro5 diesel engines that are efficient and low polluting. These extra in-house deliveries have increased the average mileage covered by each vehicle. During 2009 a programme of 'greener' driver training was promoted that resulted in the fleet achieving a saving of 6 per cent in miles per gallon.

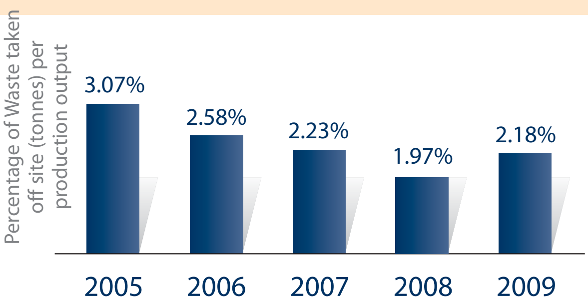
The Group continues to investigate alternative methods of distribution, particularly rail. Deliveries of products from its Halifax operational site to its service centre at Falkirk now use rail on a regular basis, as do deliveries for the Olympic projects in London.

Waste Reduction

Having reviewed its KPI for waste in 2009, the Group has continued to measure the amount of waste including material for recycling leaving site as a percentage of total production output. The KPI target is a reduction of 3 per cent per annum (averaged over a 3 year period). The business is focused 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 2005-2009.

Waste taken off site as a percentage of total production output



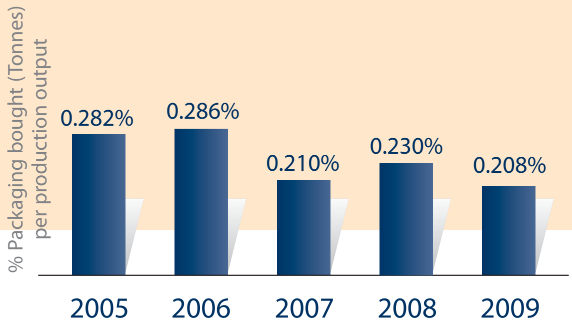
This chart does not differentiate between waste leaving site for reuse/recycling and waste leaving site for landfill. In 2009, 93.6 per cent of waste was recycled or reused (2008: 90.0 per cent), with only 6.4 per cent going to landfill (2008: 10.0 per cent). The increase in waste leaving site as a percentage 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.

Packaging

The Group's target is to reduce packaging by 2 per cent per annum, over a 3 year cycle, while ensuring that the pack and product safety is not compromised. The current reported KPI used in 2009 for packaging is the "Amount of packaging material bought in (tonnes) to be used for the containment, protection, handling, delivery and presentation of goods as a percentage of production output". The Group is reviewing this KPI, with a view to measuring packaging used rather than packaging bought. This would align more effectively with the duty to report under the Producer Responsibility Obligations (Packaging Waste) Regulations.

The chart below illustrates the Group's packaging performance 2005-2009.

Packaging bought as a percentage of total production output



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.

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. The business has invested in packaging lines that allow for certain products to be 'void' packed thereby eliminating the need for a pallet.

Packaging principally comprises timber pallets and polythene. 92 per cent of the volume of timber used by the Group in 2009 was for pallets. The Group carefully monitors the sourcing of timber by its timber pallet suppliers. The Group has worked with its pallet suppliers and by the end of 2009 these companies became FSC accredited for the supply of pallets to Marshalls.

Suppliers and Contractors

The Group has a Procurement Policy that recognises the risks of procuring from companies that 'wilfully and avoidably damage the environment'. 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. During 2010 the Group intends to complete a database on the management systems held by its suppliers in readiness for a 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. A 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 2009. 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 has also worked with the Building Research Establishment to evaluate the life cycle assessment of its products against thirteen environmental impacts throughout 2009.

Marshalls' product ranges are considered to have low environmental risk and in the majority of cases are readily reusable and recyclable at the end of their life.

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

Noxer Priora – Improving Air Quality and Reducing Flood Risks

Sustainability

The Group has reinforced its sustainable business plan and has set KPIs for the key areas of this plan in 2010. 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 launched a new Sustainability Website in 2009 at www.marshalls.co.uk/sustainability to communicate its agenda on the triple bottom line of Environmental, Social & 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 2009 all development projects except one were within existing Marshalls sites, and the exception was located on brownfield land.

Environmental Awareness and Training

The Group continues to be active in developing environmental awareness among its employees by a variety of means. The Group ran an employee engagement Energy Saving Week during 2009 with awareness-raising activities such as workplace energy conservation, driver training and home energy audits. In addition, Travel For Work surveys have raised employee awareness of their journey impacts and have shown a reduction in solitary car journeys from 2008 levels.

Biodiversity

Marshalls aims to have biodiversity action plans ("BAP") at all appropriate sites by 2012. The Group achieved a second Wildlife Trusts' Benchmark for Land Management for its operation at Stoke Hall quarry in the Peak District. It continues to develop its biodiversity awareness and has become a partner in the 2010 International Year of Biodiversity Opportunity to network and exchange information with other organisations.

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 2009 and contains no misleading information.

Maltby Quarry - Wildlife Trust Benchmark

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, Report of the Audit Committee and the Nomination Committee 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 2009: 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 25.

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 23 to 25. 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 (2008: 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 32 to 37. The Group's approach to social and community matters is described in the Corporate Responsibility Report on pages 27 to 31.

Employees: The Company's policies in relation to disabled employees and employee involvement are explained in the Corporate Responsibility Report on pages 27 to 31.

Corporate Governance: Details of the Group's policies in relation to Corporate Governance and how they are applied are set out on pages 42 to 49.

Key Relationships: The Business Review on pages 6 to 25 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 2009: The Consolidated Income Statement for the year ended 31 December 2009 is shown on page 68. Details of any important Group events and developments since the financial year end 31 December 2009 are included in the Business Review on pages 6 to 25.

Dividends

The Board is recommending a final dividend of 3.50 pence (2008: 1.30 pence) per share which, together with the interim dividend of 1.75 pence (2008: 4.07 pence) per share, makes a combined dividend of 5.25 pence (2008: 5.37 pence) per share. Payment of the final dividend, if approved at the Annual General Meeting, will be made on 2 July 2010 to shareholders registered at the close of business on 4 June 2010.

The dividend paid in the year to 31 December 2009 and disclosed in the Consolidated Income Statement is 3.05 pence (2008: 12.38 pence) per share being the previous year's final dividend of 1.30 pence (2008: 8.31 pence) per share and the interim dividend of 1.75 pence (2008: 4.07 pence) per share in respect of the year ended 31 December 2008 and paid on 3 December 2009.

Dividend per share figures have been 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 2009 was 143,106,254 Ordinary Shares of 25 pence. During the year, the Company announced a Rights Issue on a 2 for 5 basis to holders of Ordinary Shares on the register as at 27 May 2009 which was approved by shareholders on 29 May 2009 and as a result of which a further 56,272,501 Ordinary Shares of 25 pence were issued. The share capital on 31 December 2009 was 199,378,755 Ordinary Shares of 25 pence. There has been no change between 31 December 2009 and 5 March 2010. Details of the share capital are set out in Note 21 on page 104.

The Company held 2,425,000 Treasury Shares on 31 December 2008, and made no sales or purchases of Treasury Shares during the year or in the period up to 5 March 2010. Treasury Shares were not eligible to participate in the Rights Issue. Save for the Treasury Shares and some of the shares held by the Marshalls plc Employee Benefit Trust (the "EBT") as set out below, 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 2009 the EBT held 1,366,758 ordinary shares in the Company (2008:1,139,595 shares) of which 505,973 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 100 to 102. 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 held in trust by Yorkshire Building Society acting as Trustee. Employees receive dividends on these shares and may give voting instructions to the Trustee.

At the Annual General Meeting in May 2009 shareholders gave authority to the Directors to purchase up to 20,961,506 shares representing, at the time, approximately 14.9 per cent of the Company's then 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 2009 and 5 March 2010 under this authority, which will expire at the Annual General Meeting in May 2010. 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 42 to 49.

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

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

Directors

The names and biographical details of each of the Directors who served throughout the year are set out on page 26. Those Directors retiring and offering themselves for re-election are identified on that page. 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 42 to 49.

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 42 to 49.

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 52 to 63.

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 2009 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 2009 was 54 days (2008: 58 days).

Directors' Report - Other Regulatory Information (continued)

Substantial Shareholdings

As at 5 March 2010, the Company had been notified of the following disclosable interests of 3 per cent or more in its voting rights.

	%
M&G Investment Management	9.67
Majedie Asset Management	9.32
Aviva Investors	8.48
Legal & General Investment Management	4.13
AXA Investment Managers	3.98
Mirabaud Investment Management	3.17

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

Registrars

Computershare Investor Services PLC
PO Box 82, The Pavilions
Bridgwater Road
Bristol BS99 6ZZ

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

Registered Office

Birkby Grange
Birkby Hall Road
Huddersfield HD2 2YA
Telephone: 01484 438900
Facsimile: 01484 438945
Internet address: http://www.marshalls.co.uk

Registered in England and Wales: No. 5100353

Marshalls is committed to business integrity, high ethical values and professionalism in all its activities. As an essential part of this commitment, the Group supports the highest standards in Corporate Governance. It is committed to the principles of the Combined Code on Corporate Governance published by the Financial Reporting Council in June 2008 (the Code) and for which the Board is accountable to shareholders.

Statement of Compliance with the Code

Throughout the year ended 31 December 2009 the Company has complied with section 1 of the Code in all material respects.

The paragraphs below, together with the Reports of the Audit, Nomination and Remuneration Committees on pages 50 to 65, 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 page 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. There is a process in place for recording and managing conflicts of interest explained in more detail below.

There is a written Schedule of Matters Reserved for the Board. In addition the Board is responsible for risk management and for approving and reviewing Group policies in relation to issues such as 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 formally delegated specific responsibilities to Board Committees, including the Audit, Remuneration and Nomination Committees. The Board also appoints Committees to address specific matters when 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 that will not unnecessarily delay progress. 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.

Corporate Governance Statement (continued)

The Board held nine meetings in 2009. The attendance of the Directors at the Board and principal Board Committee meetings during the year is shown below:

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

The Board is scheduled to hold nine meetings during 2010.

The Board has appointed a Senior Independent Non-Executive Director who 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. 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 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 each Director is able to make an effective contribution. He ensures that there is a constructive relationship between the Executive and the Non-Executive Directors. The Chief Executive has responsibility for all operational matters which include the implementation of the Group's strategy and policies approved by the Board. The Board has approved written Terms of Reference for the Chairman and Chief Executive.

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 65 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 Company 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 2009 each Non-Executive Director attended at least one operational site visit, and some Non-Executive Directors arranged further site visits. These visits allow the Directors to meet local management and to improve their knowledge and understanding of day-to-day operational activities. During 2010 the Board intends to continue this process.

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 and competition matters.

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

In December 2009 the Board conducted an evaluation of its own performance and that of its three principal Committees by means of a detailed questionnaire and one-to–one confidential discussions between each of the Directors and the Company Secretary. The evaluation questionnaire included questions about the effectiveness of the Executive and the Non-Executive Directors, Board proceedings, and how Non-Executive Directors were able to develop an understanding of the views of major shareholders about the Company. The evaluation also asked Directors other than the Chairman to evaluate the performance of the Chairman.

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, resulting in action points for the Board in 2010. These include the further development of information, more frequent reporting on strategic initiatives and facilitating opportunities for dialogue between Non-Executive Directors and senior management below Board level. The evaluation also validated the actions taken during 2009 following the 2008 evaluation, which were believed to have improved the effectiveness of the Board. The Board will undertake a performance evaluation during 2010 and expects to consider using an independent external assessor to ensure that the evaluation remains 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. Those Directors offering themselves for re-election in 2010 and their biographical details can be found on page 26. The processes for appointment and evaluation of the Directors are set out in the Nomination Committee Report on page 65. 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 50 to 63. 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 48 to 49 and the Independent Auditors' Report on pages 66 to 67.

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 and up to the date of this report the Board, acting through the Audit Committee, has had in place an ongoing process to meet the requirements of the Code as set out in the "Revised Guidance for Directors on the Combined Code" published by the Financial Reporting Council in October 2005.

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 Audit Committee Report, 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 2009.

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 complies with the Code Principles regarding financial reporting and internal controls is set out in the Report of the Audit Committee on page 64. 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 25 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 about 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.

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 2009, 91 such meetings were held, at which at least 56 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.

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

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

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

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

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

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

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 where 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, to disclose with reasonable accuracy at any time the financial position of the Parent Company and to enable them to ensure that the Parent Company's Financial Statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the Directors are also responsible for preparing a Directors' Report, Directors' Remuneration Report and Corporate Governance Statement that comply with that law and those regulations.

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

The Directors who held office at the date of approval of this Directors' Report and whose names and functions are listed on page 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 loss of the Group taken as a whole;

(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 loss 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

The Group's Annual Report 2009 is to provide information to the members of the Company and has been prepared for, and only for, the members of the Company, as a body, and no other persons. Neither the Company nor the Directors accept or assume any liability to any person to whom this Annual Report is shown or into whose hands it may come except to the extent that such liability arises and may not be excluded under English law. Accordingly, any liability to a person who has demonstrated reliance on any untrue or misleading statement or omission shall be determined in accordance with Section 90A of the Financial Services and Markets Act 2000.

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

Annual General Meeting

The Notice convening the Annual General Meeting to be held at Birkby Grange at 12 noon on Wednesday 12 May 2010 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
5 March 2010

Directors' Remuneration Report

The Report is divided into two sections. The first section is a letter from the Remuneration Committee Chairman setting out what the Committee is aiming to achieve and how it goes about it. The second section contains details of remuneration in 2009, summarises the decisions taken for 2010 and sets out the policies and other statutory disclosures. The headings marked with an asterisk (*) identify the information that has been audited in accordance with the Companies Act 2006 and Schedule 8 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008.

The main role and responsibilities of the Remuneration 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 Remuneration Committee members are identified on page 26.

An ordinary resolution to receive and approve this Report will be proposed at the Company's Annual General Meeting to be held on 12 May 2010.

Section 1: Remuneration Committee Aims and Objectives

Dear Shareholder,

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

The remuneration package has three key elements:

A fixed package, comprising:

- basic salary;
- a defined contribution pension with Company contributions of 30 per cent of basic salary;
- life assurance;
- a fully expensed company car; and
- private medical insurance.

Based on independent advice, the Committee considers this package to be around the median level for companies of Marshalls' scale and complexity. In 2010, the Board unanimously agreed that there will be no increase in basic salary.

A performance related bonus to provide a clear link between remuneration and short term business performance. This pays up to 100 per cent of basic salary based on the achievement of underlying profit before tax targets and cash targets which are set each year in the light of prevailing market conditions. Underlying profit as opposed to reported profit before tax is used to avoid bonus performance being impacted by exceptional items. The Committee has consistently applied its policy for the treatment of positive and negative one-off items and for any changes to accounting policies for a number of years. The items are generally agreed in advance with the Committee and are subject to review by the Auditors.

A long term incentive scheme ("LTIP") designed to improve alignment between Executive Directors' and shareholder interests. The Committee can make two Awards each year; a Matching Share Award dependent upon the Director making an investment in shares equal to part or all of his performance related bonus, and a Performance Share Award. The vesting of both Awards is subject to the achievement of stretching performance targets, details of which are explained on pages 57 and 58 of this report. The maximum individual annual grant of Awards of shares under the LTIP is capped at shares with a market value at the date of grant of 250 per cent of basic salary. In 2010 the Performance Award to Executive Directors will be scaled back from 100 per cent to 75 per cent of salary, giving an aggregate maximum LTIP award of 167 per cent of basic salary.

Share Ownership Guidelines

We want our Executive Directors to have a significant level of share ownership to promote alignment with shareholders and accordingly the Committee has set share ownership guidelines. The Chief Executive has a target of twice basic salary and other Executive Directors have a target of one times basic salary, based on the share price at the time of acquisition. All Executive Directors had achieved or exceeded their target by 31 December 2009. Details of the Executive Directors' interests in shares are set out on page 58.

Work of the Committee during 2009

Economic and market conditions in 2009 remained challenging following the downturn in late 2008. The paragraphs below explain how the Committee has addressed each individual element of remuneration to reflect these conditions while meeting our objective to attract, retain and continue to motivate talented Executive Directors. In summary:

- The overall structure of the remuneration package remains unchanged;

- There will be no increase in basic salaries for 2010. As there was no increase in 2009, this means that Executive Director's salaries remain frozen at 2008 levels for a further year, with no adjustment for changes in taxation;

- Underlying profit before tax targets were not met, so the full annual performance bonus will not be paid. However, as the targets for cash were achieved, a bonus of 46 per cent of basic salary will be payable in respect of 2009 for the achievement of these cash targets. This payment reflects strong performance against a key measure of business performance. Both the profit and cash targets were set at the beginning of 2009 and, save for adjustments to strip out the effects of the Rights Issue and debenture redemption, have not been changed during the year. There has been no acceleration of payment dates for bonus awards;

- For the 2010 annual performance bonus, 60 per cent will be based on achievement of an underlying profit target and 40 per cent will be based on achievement of cash targets. This reflects the Group's continued focus on growth in profits and cash generation in the current challenging economic conditions and is consistent with our approach to Performance Share Awards. The annual performance bonus awards in 2010 will include a claw-back provision enabling the Committee to reclaim any bonus that is paid out where it is subsequently discovered that it was earned as a result of any material misstatement of results or fraud;

- The performance targets applicable to the Matching and Performance Share Awards made under the LTIP in 2007 were tested at the end of 2009 and these awards did not vest;

- No change has been made to the performance conditions applying to existing LTIP awards, and there will be no softening of the performance conditions that will be applied to the 2010 LTIP awards. Existing Matching Share Awards vest when EPS is equal to or more than RPI plus 9 per cent over the three years from date of grant, with the full award vesting only when EPS growth reaches RPI plus 21 per cent. Performance Share Awards vest when both the EPS target and a similarly challenging operating cash flow target are reached. These targets are considered particularly stretching in the current economic climate;

- The Executive Directors will qualify for a Matching Share Award in March 2010 over shares with a value at grant of up to 92 per cent of basic salary by investing their full 2009 annual performance bonus amount in the Company's shares. Shares so invested are required to be held for three years within the LTIP. As a result, to ensure the aggregate quantum of long term incentives remains appropriate in the current economic climate and to preserve the balance between the fixed and variable elements of remuneration, the

Committee expects to scale back grants of Performance Share Awards in 2010 for Executive Directors to 75 per cent of basic salary. Both awards are subject to the performance conditions noted above; and

- While not directly relevant to Marshalls, the Committee noted the key conclusions of the Financial Services Authority Code and Walker Review during the year and concluded that the Company takes into account the principles of sound risk management when setting pay. The Committee has resolved to review the structure of the remuneration package and particularly performance related incentives during 2010 to ensure that they remain 'fit for purpose' in light of the strategy of the Company, wider market practice and evolving 'best practice' governance expectations (e.g. the anticipated publication of an updated Combined Code in 2010).

In 2009 the Committee has continued to monitor the effectiveness of the remuneration policy to ensure it encourages and rewards good performance and provides clear alignment between the interests of the Executive Directors and shareholders. During the year, Hewitt New Bridge Street carried out an independent review of Executive Directors' remuneration in comparison to (i) a selected peer group of companies in the FTSE Construction & Materials Sector and (ii) companies of a similar size drawn from across all FTSE Sectors. This review indicated that the total remuneration packages of the Executive Directors were competitive against companies of a comparable size. The Committee believes that, although the present approach to remuneration remains broadly consistent with our stated policy, there should be a review of the performance-related elements of the package during 2010 to ensure that incentives continue to serve their purpose (as noted above).

Further explanation of the Committee's decisions in respect of basic salary for 2010, bonus payments for 2009 and targets for 2010 annual and LTIP awards is given below.

Basic Salary

In recognition of the continued economic and market challenges, the Board unanimously agreed that there should be no increase in the basic salary of Executive Directors for 2010. There has been no adjustment to mitigate the impact of the higher tax rates announced for 2010.

Annual Performance Bonus Payments for 2009 and Annual Performance Targets for 2010

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

For 2009, after careful deliberation, to reflect the change in economic and market conditions and the higher priority given to cash management as a key measure of successful performance, the Committee decided that 50 per cent of the bonus would be payable for underlying operating profit targets and 50 per cent for a range of cash measures. The cash measures were set to be consistent with the short term priorities for the Group, as explained in our 2008 Annual Report, particularly strong cash management and the reduction of borrowings designed to preserve the Group's resilience and core strengths during the market downturn. There was no revision of bonus targets during the year, and the impact of the Rights Issue in June 2009 and debenture redemption in December 2009 were stripped out in assessing whether bonus targets were met.

The Group responded rapidly and effectively to the deteriorating economic conditions and lower levels of market activity. In the circumstances, the business exhibited good relative performance; however, underlying profit before tax ended the year just below the target level. Consequently, no bonus is payable in respect of the underlying profit before tax element.

The Executive Directors identified a wide range of actions to reduce the borrowings of the business including careful control of working capital and capital expenditure. These actions were implemented effectively and resulted in a significant reduction in the underlying borrowings of the business. Net cash flow from operating activities was improved despite the lower level of market activity. This excellent performance on the cash targets has resulted in 46 per cent of the 50 per cent available for cash targets becoming payable. Accordingly, a total annual performance bonus of 46 per cent of basic salary (2008: 15 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. Bonus payments are usually made following completion of the audit and approval of the annual accounts, and will not be accelerated in 2010.

In 2010, the Committee has resolved that the annual performance bonus should be split 60:40 between profit and cash targets. The Group's objectives in the short term as explained in the Business Review are to maintain and seek opportunities to grow profit, while minimising risk through excellent cash management and conservation, against the background of an economic climate that is not expected to show any significant short term improvement. Up to a maximum of 60 per cent of base salary will be payable for meeting a target for underlying profit before tax set by reference to the budget and market expectations. A maximum of 40 per cent of base salary will be payable for meeting cash targets. As in 2009, a stretching scale of financial targets will be applied, with band limits between minimum and maximum consistent with those used in 2008 and 2009 in order to restrict the overall proportion of profit payable in bonuses. Bonuses become payable in an amount increasing on a straight line basis within these limits up to a maximum for significant out-performance of the 2010 targets.

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

The Committee has reviewed the LTIP during 2009 and has approved awards for 2010 as follows:

- **Matching Awards**
  Each of the Executive Directors has indicated his intention to invest the full annual performance bonus amount in Marshalls plc shares. This is the fifth consecutive year that the Executive Directors have invested their full annual performance bonus amount in Marshalls plc shares. The Committee has agreed that Executive Directors may roll over Investment Shares already held in the LTIP that would otherwise be capable of immediate sale towards such investment. The Committee considers that this reduces the administration of the LTIP without altering its effect or purpose and does not result in higher costs to the Company. The Remuneration Committee has Approved Matching Share Awards in respect of Investment Shares in the Plan by reference to the value of the 2009 annual performance bonus earned. The Matching Shares awarded in 2010 will vest only if the performance criteria over the three year period 2009-2012 are met.

- **Performance Awards**
  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, and are extremely stretching. The 2007 Awards made using these criteria have been measured in 2009 and none have vested. The Committee has approved Performance Share Awards for 2010 using the same stretching criteria. The Committee has considered the aggregate potential quantum of long term incentive rewards in view of the current share price, immediate trading prospects and the higher number of shares to be awarded as Matching Shares in 2010, and has scaled back the

Performance Share Awards made to Executive Directors to 75 per cent of basic salary (2009: 100 per cent). The Committee believes that this is consistent with the principle of alignment of the interests of shareholders and the Executive Directors, and ensures that a significant element of Executive Directors' remuneration remains variable and dependent on share price performance.

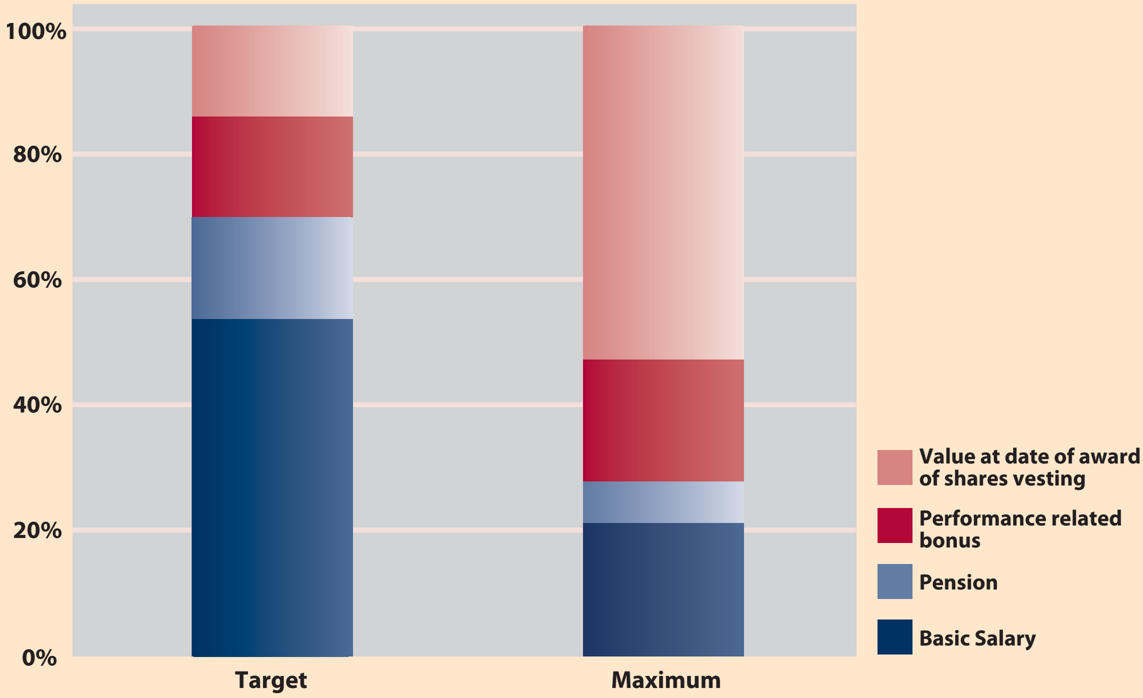
- **Approved Options**
  For 2010 awards a proportion of Performance Shares will be awarded using a tax-approved share option scheme structure so that, in the event of vesting, under current HMRC rules the growth in value of the first £30,000 in value of an award would be subject to tax as a capital gain rather than income. The Committee has approved the minor changes to the LTIP in order to include this structure for the purpose of making awards more tax efficient, having been satisfied after consultation with its auditors and remuneration advisers that the changes are permitted for this purpose and that there is no loss of corporation tax relief for the Company. The performance criteria for vesting are not affected.

Fixed and Variable Remuneration

The table opposite shows the balance between fixed and performance related pay at target and maximum performance levels. The Committee has taken into account the sensitivities of shareholder and investor groups in determining both the quantum and targets available for 2010. A lower proportion of the maximum bonus opportunity will be earned for on-target performance than in 2009, and Performance Share Awards have been scaled back compared to the policy operated in prior years. The "target" column in the table assumes no better than on-target performance in 2010 which is set to be broadly aligned with the delivery of short and long-term budgets and with 50 per cent of target bonus assumed to be invested in the LTIP, whereas the "maximum" column assumes achievement of a maximum bonus which is then fully invested in the LTIP and full vesting of shares awarded under the LTIP. At maximum, over 70 per cent of remuneration remains performance-related.

Directors' Remuneration Report (continued)

Relative proportion of fixed and variable remuneration



I hope you find this report helpful and informative.

Andrew Allner
Chairman of the Remuneration Committee

Section 2: Directors' Remuneration and Statutory Disclosures

Directors' Remuneration*

	Salary/ fees £'000	Annual performance bonus £'000	Benefits £'000	Total remuneration (excluding pensions) 2009 £'000	Total remuneration (excluding pensions) 2008 £'000	Pension defined contribution payments 2009 £'000	Pension defined contribution payments 2008 £'000	Maximum potential LTIP shares awarded Number of shares
Chairman								
Mike Davies	145	-	-	145	145	-	-	-
Executive Directors								
Ian Burrell	230	107	15	352	279	69	69	628,537
Graham Holden	400	185	16	601	478	110	120	1,149,229
David Sarti	230	107	20	357	283	69	69	628,537
Non-Executive Directors								
Andrew Allner	44	-	-	44	44	-	-	-
Bill Husselby	34	-	-	34	34	-	-	-
Richard Scholes	44	-	-	44	44	-	-	-
	1,127	399	51	1,577	1,307	248	258	2,406,303

Notes to Directors' Remuneration table

(a) The salaries, fees, performance related bonuses and benefits all relate to the year ended 31 December 2009.

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

(c) The 2009 defined contribution pension payment for Graham Holden is made up of contributions to the pension scheme which were reduced to 6 per cent between May and December 2009 (£52,000) with the balance during this period taken as salary supplement (£58,000 after deduction of NIC).

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

(e) Graham Holden served as a Non-Executive Director of KCOM Group Plc throughout 2009. During the year he received a fee of £45,000 from this company which is not included in the above figures.

(f) During the year David Sarti served as a Non-Executive Director of an independent private group of companies in respect of which he received a fee of £25,000 which is not included in the above figures.

Non-Executive Directors' Fees

The fees for the Non-Executive Directors were reviewed in January 2009. The basic fixed annual fee is £34,386 with an additional fee of £10,000 for the Chairmanship of a Board Committee. During the year the Chairman received a fixed fee of £145,000. The Non-Executive Directors also receive an annual fixed gross payment of £5,000 (£10,000 in the case of the Chairman) to cover travelling, accommodation and subsistence expenses incurred in the performance of their duties. Neither the Chairman nor the Non-Executive Directors receive any other benefits or participate in the pension or share based incentive schemes. No increases to Non-Executive Directors' annual fees have been proposed for 2010.

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

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

For 2010 Matching Share Awards, the Executive Directors have met the minimum share ownership targets and the Committee is permitting them to roll over Investment Shares previously held in the LTIP in relation to lapsed Matching Awards up to a maximum of their net annual performance bonus for 2009. This avoids the undesirable result of an Executive Director selling and buying an equal number of shares in order to be granted a 2010 Matching Share Award. The Committee has been advised that this is permitted under the LTIP rules at the discretion of the Committee on the grounds that it is a minor change that improves the administration of the LTIP and is efficient without providing a material commercial advantage to the Executives Directors.

In 2007, amendments to the LTIP were approved by shareholders to allow the grant of Performance Share Awards to eligible Executive Directors and senior executives of up to 100 per cent of basic salary each year. The vesting of the Performance Share Awards is subject to the achievement of pre-determined three year performance conditions. An Executive Director may not receive Matching Share Awards and Performance Share Awards in any financial year over shares having a total market value (established at the date of grant) in excess of 250 per cent of his annual basic salary in that financial year. Matching and Performance Awards granted to Executive Directors in 2010 will be well below this limit.

The Committee has exercised its power to make minor changes to the LTIP for the purpose of tax efficiency so that a proportion of Performance Awards in 2010 can be made under an HMRC approved share option structure. A further explanation is set out below.

Details of the performance conditions for LTIP awards are set out below. Details of awards made to the Directors are set out on page 59. No LTIP awards vested during the year.

Matching Share Awards

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

The EPS conditions for Matching Share Awards granted in March 2006 and March 2007 were not met, so these awards have now lapsed. The Committee notes that in view of the 2009 results and the outlook for 2010 reported in the Business Review, it is not considered likely that the 2008 awards will vest.

For Matching Share Awards granted in each of March 2008, March 2009 and to be granted in March 2010, the EPS performance conditions are:

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

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

Performance Share Awards

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

The conditions that must be satisfied for Performance Share Awards to vest are as follows:

Performance Share Award Conditions

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

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

In each case, straight line vesting occurs between points. No awards will vest for performance below RPI + 9 per cent over three years.

All awards are subject to the discretion of the Committee. These conditions applied to Performance Share Awards made in 2007, 2008 and 2009 and will apply to 2010 awards. As the conditions were not met in the relevant period, Performance Share Awards made in 2007 have lapsed.

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

Approved Options

The Committee has approved minor changes to the LTIP Rules to allow a proportion of 2010 Performance Awards to be made as approved share options under an HMRC approved option plan structure. The Committee has consulted external remuneration consultants and its auditors and is advised that this is within its discretionary powers under the current LTIP Rules, that the use of such an arrangement does not affect the corporation tax relief available to the Company, and that it does not provide any advantage to the participants other than to maximise the tax efficiency of the awards if they vest. The overall value that can be received by a participant on vesting does not change, and the performance conditions for Performance Share Awards granted in the form of approved options are the same as those for the remaining Performance Share Awards as described above. Under current tax rules, the use of approved options should deliver a tax saving for participants and for the Company if performance conditions are satisfied and awards vest by enabling the growth in value of the first £30,000 in value of the 2010 award over the award period to be taxable as a capital gain rather than income, and consequently free of employers' and employees' NIC.

Table of Directors' Interests, Share Options and Long Term Incentive Plan *

Share Interests

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

	31 December 2009				31 December 2008			
	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	25,000	-	-	25,000
Ian Burrell	52,759	2,998	99,045	154,802	28,216	1,397	79,615	109,228
Mike Davies	63,000	-	-	63,000	45,000	-	-	45,000
Graham Holden	268,553	2,998	180,763	452,314	219,106	1,397	149,262	369,765
Bill Husselby	42,000	-	-	42,000	30,000	-	-	30,000
David Sarti	78,414	2,998	97,445	178,857	36,432	1,397	75,866	113,695
Richard Scholes	49,000	-	-	49,000	35,000	-	-	35,000

Notes to Directors' Share Interests table

(a) There were no changes between 1 January 2010 and 5 March 2010 save that each of the Executive Directors acquired 432 shares in the Marshalls plc Share Purchase Plan (the Plan) between January and March 2010. 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 share options during the year, nor did they hold any interests in derivatives or other financial instruments relating to the Company's shares.

Long Term Incentive Plan (the "LTIP")

	LTIP Share Awards	At 1 January 2009	Granted	Rights Issue "bonus factor" adjust-ment	Lapsed	At 31 December 2009	Market Price on Date of Award (pence)	Date of Award	Date from which Exerci-sable
Ian Burrell	Matching Shares	84,556	-	10,062	94,618	-	326	16.03.07	-
	Performance Shares	41,556	-	4,945	46,501	-	379	17.05.07	-
	Matching Shares	130,305	-	15,506	-	145,811	249	10.03.08	10.03.11
	Performance Shares	46,432	-	5,525	-	51,957	248	13.03.08	13.03.11
	Matching Shares	-	88,836	10,571	-	99,407	81	12.03.09	12.03.12
	Performance Shares	-	296,124	35,238	-	331,362	78	12.03.09	12.03.12
Graham Holden	Matching Shares	163,657	-	19,475	183,132	-	326	16.03.07	-
	Performance Shares	100,263	-	11,931	112,194	-	379	17.05.07	-
	Matching Shares	235,791	-	28,059	-	263,850	249	10.03.08	10.03.11
	Performance Shares	121,728	-	14,485	-	136,213	248	13.03.08	13.03.11
	Matching Shares	-	154,498	18,385	-	172,883	81	12.03.09	12.03.12
	Performance Shares	-	514,999	61,284	-	576,283	78	12.03.09	12.03.12
David Sarti	Matching Shares	79,707	-	9,485	89,192	-	326	16.03.07	-
	Performance Shares	41,556	-	4,945	46,501	-	379	17.05.07	-
	Matching Shares	130,305	-	15,506	-	145,811	249	10.03.08	10.03.11
	Performance Shares	46,432	-	5,525	-	51,957	248	13.03.08	13.03.11
	Matching Shares	-	88,836	10,571	-	99,407	81	12.03.09	12.03.12
	Performance Shares	-	296,124	35,238	-	331,362	78	12.03.09	12.03.12

Notes to LTIP table

(a) The share price on 31 December 2009 was 86 pence (2008: 90 pence).

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

(c) Awards outstanding as at 31 December 2009 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.

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

Statutory Disclosures

Role of the Committee

The Committee is responsible for determining, on behalf of the Board, the framework of remuneration for the Executive Directors and reviewing the on-going appropriateness and relevance of the policy. The Committee approves the general recruitment terms, remuneration benefits, employment conditions, pension rights, compensation payments and service terms for the Executive Directors. It also approves the rules and associated guidelines for share based award schemes. The Committee may not determine its own fees but is responsible for setting the Chairman's fee. The Committee members having served during the year are identified on page 26.

General Policy

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 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 2010 in recognition of the challenging economic climate the Board unanimously agreed that no increase in base salary should be awarded to Executive Directors and senior managers, and, after employee consultation, adopted a corresponding policy for its wider workforce. 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 believes that the remuneration packages deliver a combination of shorter and longer term incentives that are aligned with the wider interests of the Company's stakeholders.

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

Remuneration of Executive Directors

Basic Salary

The Committee seeks to pay salaries which take account of individual performance and take account of those paid in comparable companies in the FTSE Construction & Materials Sector and in the FTSE index more generally. The Committee uses comparisons with caution to avoid increasing remuneration levels without a corresponding improvement in performance.

Basic salary is reviewed at 31 December each year or when a change of responsibility occurs. The Committee reviews the proposals for pay and employment conditions within the Group as a whole when considering proposals for Executive Directors' remuneration. It has historically been the practice to award an annual cost of living increase to the workforce including Executive Directors, and to consider further increases on merit or to reflect a change in responsibilities or roles.

At the end of 2008, in recognition of the wider economic circumstances and of the decline in the share price of the Company, no cost of living pay increase was awarded to Executive Directors or senior managers for 2009. However, the Company made a limited cost of living pay increase award to the workforce at operational sites under an agreement reached in 2008. In 2010 the Committee has considered the economic climate and the outcome of the Hewitt New Bridge Street review and has again resolved to award no cost of living increase for Executive Directors and senior managers for the coming year 2010. The Committee notes that other employees within the Group have also agreed to accept a nil cost of living increase in 2010.

Performance Related Pay and Risk Profile

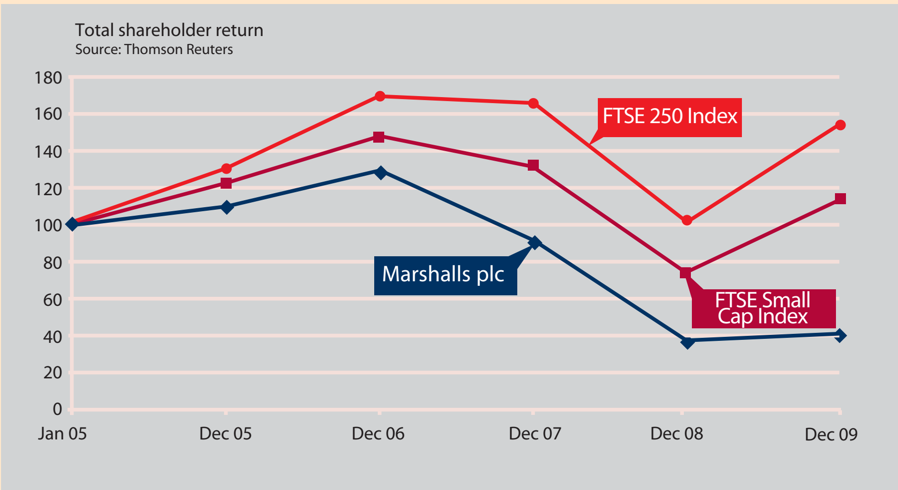
The policy of the Committee is to align Executive Directors' interests with those of shareholders and to give these Executives incentives to perform at the highest levels. To achieve this it seeks to ensure that a significant proportion of the remuneration package varies with the financial performance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

Details of the share ownership guidelines for Executive Directors are set out on page 51.

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 2005 to 31 December 2009. 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 2009 of £100 invested in Marshalls plc on 31 December 2004 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.

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 requires 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.

Service Contracts *

Each of the Executive Directors has a service contract with the Company which is terminable by the Company on not more than 12 months notice and by the Director on 6 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 6 months' notice. If the unexpired term is less than 6 months, notice does not need to be served.

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

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

	Appointment date	Notice period
Ian Burrell	June 2001	1 year
Graham Holden	August 1992	1 year
David Sarti	November 2004	1 year

	Appointment date	Term of appointment
Mike Davies	October 2004, renewed September 2007	3 years
Andrew Allner	July 2003, last renewed July 2009	3 years
Bill Husselby	March 2005, renewed February 2008	3 years
Richard Scholes	July 2003, last renewed July 2009	9 months

In accordance with the Group's policy of seeking to ensure that the skills and experience of the Board are regularly refreshed, Mike Davies intends to step down as Chairman and Director at the conclusion of the Annual General Meeting in May 2010. Graham Holden and Andrew Allner are due to retire by rotation at the Annual General Meeting in May 2010 and are eligible for re-election.

Pension Benefits *

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

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 and 3 per cent respectively of their basic salary. The Scheme provides for a lump sum payment and dependants' pension benefits on death in service. Until 28 December 2009 Graham Holden was also a member of the Defined Contribution Section of the Scheme, entitled to Company contributions at 30 per cent of basic salary and required to make a minimum contribution of 6 per cent of basic salary.

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 has chosen to take his pension entitlement early as permitted under the Scheme on reaching age 50 on 28 December 2009 and will take a salary supplement at no additional cost to the Company in future years in lieu of employer contributions. He remains entitled to life assurance benefits. This change does not affect his status as a full time employee and Chief Executive of the Company.

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

By virtue of having elected to take his Scheme benefits at 50, Graham Holden received a cash lump sum and is entitled to an annual pension with effect from 28 December 2009. From this date he ceased to be able to take a transfer of accrued benefits under the Scheme and no further benefits will accrue. Accordingly, the details of the accrued pension valued on a transfer basis set out in the table below have been calculated in accordance with the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 up to 28 December 2009.

	Age at 28 December 2009	Years of service at 28 December 2009	Accrued entitlement at 28 December 2009 £'000	Increase in accrued entitlement earned during the year £'000	Transfer value of pension increase earned in year £'000
Graham Holden	50	23	142	nil	nil

	Transfer value as at 28 December 2009 £'000	Transfer value as at 31 December 2008 £'000	Increase in transfer value less member's contribution over the year £'000
Graham Holden	2,642	2,415	227

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

Andrew Allner

Chairman of the Remuneration Committee

5 March 2010

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 and Andrew Allner are both Chartered Accountants.

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

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 2009 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 2009 are analysed in Note 3 on page 83. Amounts paid to KPMG Audit Plc in 2009 for non-audit services include work in relation to the Rights Issue prospectus. The aggregate amount paid to other firms of accountants for non-audit services in the same period was £98,000 (2008: £153,000).

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. No such concerns were raised during the year. The policy was reviewed during the year and the Audit Committee was satisfied that arrangements are in place for the proportionate and independent investigation of such matters and for appropriate follow-up action.

The Audit Committee monitors and reviews the effectiveness of internal control activities. It also reviewed the need for an in-house internal audit function during 2009 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:

Richard Scholes
Chairman of the Audit Committee
5 March 2010

Nomination Committee Report

The Board has an established Nomination Committee whose members are the Non-Executive Directors. Mike Davies normally chairs this Committee, although the Terms of Reference of the Committee, which are available on the Company's website (www.marshalls.co.uk) state that the Chairman would not chair the Nomination Committee when it is dealing with his own re-appointment or the appointment of a successor to the Chairmanship.

During 2009 the work of the Nomination Committee included:

- A performance evaluation of the Directors who sought re-election at the Annual General Meeting in 2009, and of those Directors whose letters of appointment were renewed;
- A review of the Board conflicts register and of any notifications;
- Evaluation of the balance of skills and experience on the Board and Board succession planning; and
- A 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.

Non-Executive Directors are appointed for specific terms subject to re-appointment and the Company's Articles of Association and subject to the Companies Act provisions relating to the removal of a Director. The Nomination Committee carries out a performance evaluation for each Director who is retiring by rotation and is seeking re-election. In order for a re-election proposal to proceed, the Committee should be able to conclude that the Director continues to be effective and that they demonstrate commitment to the role. The Nomination Committee then makes its recommendation to the Board. In the circular to shareholders accompanying the resolution to re-elect a Non-Executive Director, there is an explanation from the Chairman as to why the Non-Executive Director should be re-elected and confirming that a formal performance evaluation has taken place.

On a regular basis the Nomination Committee undertakes an evaluation of the balance of skills, knowledge and experience on the Board. The Committee is mindful of the need to regularly review the composition of the Board, and for a particular appointment it will use this evaluation to prepare a description of the role and capabilities required. 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 Committee leads the process of recruiting new Directors to the Board. No new appointments were made to the Board in 2009.

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 Mike Davies became Chairman of Manchester Airports Group and Ian Burrell became a Director and Trustee of Leeds Trinity University College. Neither 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.

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

Mike Davies
Chairman of the Nomination Committee
5 March 2010

Independent Auditors' Report to the Members of Marshalls plc

We have audited the Financial Statements of Marshalls plc for the year ended 31 December 2009 set out on pages 68 to 114. The financial reporting framework that has been applied in the preparation of the Group Financial Statements is applicable by 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 Auditors

As explained more fully in the Directors' Responsibilities Statement set out on pages 48 and 49, 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 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/UKP.

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 2009 and of the Group's loss 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; and
- 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
- 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; or

Under the Listing Rules we are required to review:

- the Directors' Statement, set out on page 47, in relation to going concern; and
- the part of the Corporate Governance Statement on pages 42 to 49 relating to the Company's compliance with the nine provisions of the June 2008 Combined Code specified for our review.

RI Moffatt (Senior Statutory Auditor)
For and on behalf of KPMG Audit Plc
Chartered Accountants
Leeds
5 March 2010

Consolidated Income Statement

for the year ended 31 December 2009

	Notes	Before works closure costs and redemption of debenture 2009 £'000	Works closure costs and redemption of debenture 2009 £'000	Total 2009 £'000	Before works closure costs, goodwill and intangible asset impairments 2008 £'000	Works closure costs, goodwill and intangible asset impairments 2008 £'000	Total 2008 £'000
Revenue	2	**311,685**	**-**	**311,685**	378,063	-	378,063
Net operating costs	3, 4	**(295,276)**	**(7,217)**	**(302,493)**	(347,447)	(26,989)	(374,436)
Operating profit	2	**16,409**	**(7,217)**	**9,192**	30,616	(26,989)	3,627
Financial expenses	6	**(15,247)**	**(7,259)**	**(22,506)**	(19,627)	-	(19,627)
Financial income	6	**10,944**	**-**	**10,944**	11,473	-	11,473
Profit/(loss) before tax	2	**12,106**	**(14,476)**	**(2,370)**	22,462	(26,989)	(4,527)
Income tax (expense)/credit	7	**(2,435)**	**4,053**	**1,618**	(6,250)	4,556	(1,694)
Profit/(loss) for the financial period attributable to equity shareholders of the parent		**9,671**	**(10,423)**	**(752)**	16,212	(22,433)	(6,221)
Earnings per share: *							
Basic (restated)	8	5.38p		**(0.42)p**	10.38p		(3.98)p
Diluted (restated)	8	5.28p		**(0.42)p**	10.26p		(3.98)p
Dividend: *							
Pence per share (restated)	9			**3.05p**			12.38p
Dividends declared	9			**5,460**			19,374

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

The notes on pages 73 to 107 form part of the Consolidated Financial Statements.

Consolidated Statement of Comprehensive Income

for the year ended 31 December 2009

	2009 £'000	2008 £'000
Loss for the period	**(752)**	(6,221)
Other comprehensive income		
Effective portion of changes in fair value of cash flow hedges	**172**	(167)
Deferred tax arising	**(50)**	46
Defined benefit plan actuarial (losses)/gains	**(56,002)**	27,654
Deferred tax arising	**15,680**	(7,742)
Other comprehensive (expense)/income for period, net of income tax	**(40,200)**	19,791
Total comprehensive (expense)/income for the period (attributable to equity shareholders of the parent)	**(40,952)**	13,570

Consolidated Balance Sheet

at 31 December 2009

	Notes	2009 £'000	2008 £'000
Assets			
Non-current assets			
Property, plant and equipment	10	**202,570**	216,888
Intangible assets	11	**41,559**	41,351
Investment in associates	12	**2,118**	2,113
Employee benefits	19	**-**	16,501
Deferred taxation assets	20	**10,696**	762
		256,943	277,615
Current assets			
Inventories	13	**82,187**	89,814
Trade and other receivables	14	**31,267**	32,225
Cash and cash equivalents	15	**9,283**	538
		122,737	122,577
Total assets		**379,680**	400,192
Liabilities			
Current liabilities			
Trade and other payables	16	**53,248**	61,780
Corporation tax		**3,845**	3,855
Interest bearing loans and borrowings	17	**20,039**	23,429
		77,132	89,064
Non-current liabilities			
Interest bearing loans and borrowings	17	**58,400**	88,439
Employee benefits	19	**37,956**	-
Deferred taxation liabilities	20	**25,093**	29,452
		121,449	117,891
Total liabilities		**198,581**	206,955
Net assets		**181,099**	193,237
Equity			
Capital and reserves attributable to equity shareholders of the parent			
Share capital	21	**49,845**	35,777
Share premium account		**22,695**	2,734
Own shares		**(9,472)**	(9,472)
Capital redemption reserve		**75,394**	75,394
Consolidation reserve		**(213,067)**	(213,067)
Hedging reserve		**(2)**	(124)
Retained earnings		**255,706**	301,995
Equity shareholders' funds		**181,099**	193,237

Approved at a Directors' meeting on 5 March 2010.
On behalf of the Board:

D.G. Holden
Chief Executive

I.D. Burrell
Finance Director

The notes on pages 73 to 107 form part of these Consolidated Financial Statements.

Consolidated Cash Flow Statement

for the year ended 31 December 2009

	Notes	2009 £'000	2008 £'000
Cash flows from operating activities			
Loss before tax		**(2,370)**	(4,527)
Adjustments for:			
Depreciation		**18,773**	21,438
Amortisation		**877**	841
Works closure costs, goodwill and intangible asset impairments		**7,217**	26,989
Share of results of associates		**(5)**	69
Gain on sale of property, plant and equipment		**(859)**	(2,705)
Equity settled share based expenses		**245**	(994)
Financial income and expenses (net)		**11,562**	8,154
Operating cash flow before changes in working capital and pension scheme contributions		**35,440**	49,265
Decrease in trade and other receivables		**955**	10,924
Decrease/(increase) in inventories		**7,627**	(7,675)
Decrease in trade and other payables		**(5,346)**	(5,227)
Works closure costs paid		**(6,854)**	(5,976)
Pension scheme contributions		**(2,150)**	(6,600)
Cash generated from the operations		**29,672**	34,711
Financial expenses paid		**(4,296)**	(8,095)
Income tax received/(paid)		**2,950**	(4,738)
Net cash flow from operating activities		**28,326**	21,878
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		**2,353**	11,495
Financial income received		**97**	325
Acquisition of subsidiaries and investment in associates		**(750)**	(6,077)
Acquisition of property, plant and equipment		**(8,077)**	(21,242)
Acquisition of intangible assets		**(1,085)**	(803)
Net cash flow from investing activities		**(7,462)**	(16,302)
Cash flows from financing activities			
Proceeds from issue of share capital		**36,588**	-
Share issue costs paid		**(2,559)**	-
Payments to acquire own shares		**-**	(606)
Net decrease in other debt and finance leases		**(102)**	(237)
Premium on redemption of debenture		**(7,259)**	-
(Decrease)/increase in borrowings		**(33,327)**	43,000
Equity dividends paid		**(5,460)**	(19,374)
Net cash flow from financing activities		**(12,119)**	22,783
Net increase in cash and cash equivalents		**8,745**	28,359
Cash and cash equivalents at 1 January		**538**	(27,821)
Cash and cash equivalents at 31 December	15	**9,283**	538

Consolidated Statement of Changes in Equity

for the year ended 31 December 2009

	Share capital	Share premium account	Own shares	Capital redemption reserve	Consolidation reserve	Hedging reserve	Retained earnings	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Current 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 tax arising	**-**	**-**	**-**	**-**	**-**	**(50)**	**-**	**(50)**
Defined benefit plan actuarial losses	**-**	**-**	**-**	**-**	**-**	**-**	**(56,002)**	**(56,002)**
Deferred tax 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**

Consolidated Statement of Changes in Equity (continued)

for the year ended 31 December 2009

	Share capital	Share premium account	Own shares	Capital redemption reserve	Consolidation reserve	Hedging reserve	Retained earnings	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Prior year								
At 1 January 2008	35,777	2,734	(8,866)	75,394	(213,067)	(3)	308,672	200,641
Total comprehensive income for the period								
Loss for the financial period attributable to equity shareholders of the parent	-	-	-	-	-	-	(6,221)	(6,221)
Other comprehensive income								
Effective portion of changes in fair value of cash flow hedges	-	-	-	-	-	(167)	-	(167)
Deferred tax arising	-	-	-	-	-	46	-	46
Defined benefit plan actuarial gains	-	-	-	-	-	-	27,654	27,654
Deferred tax arising	-	-	-	-	-	-	(7,742)	(7,742)
Total other comprehensive income	-	-	-	-	-	(121)	19,912	19,791
Total comprehensive income for the period	-	-	-	-	-	(121)	13,691	13,570
Transactions with owners, recorded directly in equity								
Contributions by and distributions to owners								
Purchase of own shares	-	-	(606)	-	-	-	-	(606)
Share based expenses	-	-	-	-	-	-	(994)	(994)
Dividends to equity shareholders	-	-	-	-	-	-	(19,374)	(19,374)
Total contributions by and distributions to owners	-	-	(606)	-	-	-	(20,368)	(20,974)
At 31 December 2008	35,777	2,734	(9,472)	75,394	(213,067)	(124)	301,995	193,237

Notes to the Consolidated Financial Statements

1 Accounting policies

Significant accounting policies

Marshalls plc (the "Company") is a company domiciled in the United Kingdom. The Consolidated Financial Statements of the Company for the year ended 31 December 2009 comprise the Company and its subsidiaries (together referred to as the "Group").

The Consolidated Financial Statements were authorised for issue by the Directors on 5 March 2010.

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 2009:

- IFRS 8 - *"Operating Segments"* (1 January 2009) - Financial information is required to be reported on the same basis as is used internally for evaluating operating segment performance and deciding how to allocate resources. Further information is included in Note 2 but the Directors have 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.

- IFRIC 14 - *"The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction"* (1 January 2009) - This clarifies when refunds or reductions in future contributions in relation to defined benefit assets should be regarded as available and provides guidance on the impact of minimum funding requirements (MFR) on such assets. It also addresses when a MFR might give rise to a liability. IFRIC 14 has become mandatory for the Group's 2009 Financial Statements with retrospective application required. This has had no impact on the Consolidated Financial Statements as the Group has an unconditional right to a refund.

- Revised IAS 23 *"Borrowing Costs"* (mandatory for the year commencing on or after 1 January 2009). This has had no material impact on the Consolidated Financial Statements.

- Revised IAS 1 *"Presentation of Financial Statements"* (mandatory for the year commencing on or after 1 January 2009). The Consolidated Financial Statements include the relevant disclosure requirements.

- Amendments to IFRS 2 *"Share based payment - Vesting Conditions and Cancellations"* (mandatory for the year commencing on or after 1 January 2009). This has 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 2009, 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 108 to 114 .

(b) Basis of preparation

The Consolidated Financial Statements have been prepared on the basis of the requirements of adopted IFRSs in issue and adopted by the EU and effective at 31 December 2009.

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 25 . 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 25 August 2009. As part of the planned maturity profile certain loans mature within the next twelve months. As

1 Accounting policies (continued)

(b) Basis of preparation (continued)

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. Whilst the reduction in sales volumes through 2009 was unprecedented, the Group has taken decisive action both to raise additional funds through a Rights Issue and 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.

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 27.

(c) Basis of consolidation

(i) Subsidiaries

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

(ii) Associates (equity accounted investees)

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

(iii) Transactions eliminated on consolidation

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

1 Accounting policies (continued)

(d) Foreign currency transactions

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

(e) Derivative financial instruments

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

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

(f) Hedging

(i) Cash flow hedges

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

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

(ii) Economic hedges

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

(g) Property, plant and equipment

(i) Owned assets

Items of property, plant and equipment are stated at cost less accumulated depreciation (see below) and impairment losses (see accounting policy 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.

1 Accounting policies (continued)

(g) Property, plant and equipment (continued)

(ii) Leased assets

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Property, plant and equipment acquired by way of finance lease are stated at an amount equal to the lower of its fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation (see below) and impairment losses (see accounting policy 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 by applying the purchase method. Goodwill represents consideration given by the acquirer in anticipation of future economic benefits from assets that are not capable of being individually identified and separately recognised. In respect of business acquisitions that have occurred since 1 January 2004, goodwill represents the difference between the cost of the acquisition and the fair value of the net identifiable assets and contingent liabilities acquired.

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

Goodwill is subsequently stated at cost less any accumulated impairment losses. Goodwill is allocated to cash generating units and is tested annually for impairment (see accounting policy l).

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

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

(ii) Research and development

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

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

1 Accounting policies (continued)

(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.

(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.

1 **Accounting policies** (continued)

(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.

(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 plan, or reductions in future contributions to the plan. The present value of these economic benefits is discounted by reference to market yields at the balance sheet date on high quality corporate bonds.

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

(ii) Defined contribution schemes

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

(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 share options that vest.

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

1 Accounting policies (continued)

(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.

(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).

1 Accounting policies (continued)

(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 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 on page 82.

2 Segmental analysis

	Revenue 2009 £'000	Revenue 2008 £'000	Operating profit (before works closure costs, goodwill and intangible asset impairments and redemption of debenture) 2009 £'000	Operating profit (before works closure costs, goodwill and intangible asset impairments and redemption of debenture) 2008 £'000	Operating profit 2009 £'000	Operating profit 2008 £'000
Continuing operations	**311,685**	378,063	**16,409**	30,616	**9,192**	3,627
Financial income and expenses (net)			**(4,303)**	(8,154)	**(11,562)**	(8,154)
Profit/(loss) before tax			**12,106**	22,462	**(2,370)**	(4,527)

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 have 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. 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 25. The fundamental strategic objectives are as follows:

- to improve the profitability of the Group's operations and optimise the operating performance of the business;
- to maintain a strong market position in all target markets;
- to develop relationships with installers to deliver more effective market penetration and improve product mix; and
- to invest in selective synergistic acquisitions and organic expansion.

These strategic objectives 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.

	2009 £'000	2008 £'000
Geographical destination of revenue:		
United Kingdom	**308,498**	374,830
Rest of the world	**3,187**	3,233
	311,685	378,063

All revenue originates in the United Kingdom from continuing operations. Included within revenue is £704,000 (2008: £3,630,000) relating to the provision of installation services.

3 Net operating costs

	2009 £'000	2008 £'000
Raw materials and consumables	**92,970**	124,366
Changes in inventories of finished goods and work in progress	**5,454**	(8,487)
Personnel costs (Note 5)	**84,244**	91,986
Depreciation - owned	**18,671**	21,168
- leased	**102**	270
Amortisation of intangible fixed assets (Note 11)	**877**	841
Own work capitalised	**(1,581)**	(2,132)
Manufacturing overheads	**95,879**	117,429
Strategic business initiatives: Domestic Expansion	**-**	4,099
Strategic business initiatives: Commercial Expansion	**-**	1,371
Share of results of associates	**(5)**	69
Operating costs	**296,611**	350,980
Other operating income	**(718)**	(1,304)
Net profit on asset and property disposals	**(617)**	(2,229)
Net operating costs before works closure costs, goodwill and intangible asset impairments	**295,276**	347,447
Works closure costs, goodwill and intangible asset impairments (Note 4)	**7,217**	26,989
Net operating costs	**302,493**	374,436

	2009	2008
Net operating costs include:		
Auditors' remuneration (in respect of the audit of the Group Financial Statements) :		
Marshalls plc	**20**	20
Subsidiaries	**110**	107
Other fees paid to the auditors and their associates (see below)	**243**	33
Leasing costs	**6,934**	6,699
Hire of plant and machinery	**3,652**	4,485
Research and development costs	**2,826**	3,671

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

	2009 £'000	2008 £'000
Services related to the Rights Issue (Note 21)	**227**	-
Corporation tax compliance procedures	**8**	7
Other tax services	**8**	13
Other	**-**	13
	243	33

4 Works closure costs, goodwill and intangible asset impairments

	2009 £'000	2008 £'000
Works closure costs	**7,217**	17,677
Goodwill and intangible asset impairments	**-**	9,312
	7,217	26,989

The Board has determined that certain charges to the Consolidated Income Statement should be separately identified for better understanding of the Group's results for the years ended 31 December 2009 and 31 December 2008.

In the year ended 31 December 2009, works closure costs reflect the impact of the closure of the concrete manufacturing operations at Llay and other capacity reductions. In the year ended 31 December 2008, works closure costs included the closure of concrete manufacturing operations at Cannock, Sawley and Hambrook and the cost of reducing the design, Managed Installations and Display Centre part of the Group's Consumer initiatives.

Asset impairments in the year ended 31 December 2008 include £8,912,000 which represents the full amount of goodwill that was being carried in the Group balance sheet in respect of the Premier Mortars, Compton and Scenic Blue businesses (Note 11). Premier Mortars supplies ready to use mortar to the housebuilding market, Compton supplies pre-fabricated garages to the consumer and Scenic Blue was part of the Group's Consumer initiatives. These businesses had been particularly affected by the deterioration in market conditions. In addition, intangible assets in the year ended 31 December 2008 totalling £400,000 were impaired relating to the Group's Consumer initiatives (Note 11).

Works closure costs include the write off of inventories and plant and equipment amounting to £632,000 (2008: £1,173,000) and £2,128,000 (2008: £5,656,000) respectively.

5 Personnel costs

	2009	2008
Personnel costs (including Directors):	**£'000**	£'000
Wages and salaries	**74,067**	81,939
Social security costs	**7,554**	8,292
Share based expenses (Note 19)	**245**	(994)
Contributions to defined contribution section of the Pension Scheme	**2,378**	2,749
Included within net operating costs (Note 3)	**84,244**	91,986
Personnel costs (including redundancy) included in works closure costs (Note 4)	**1,134**	5,280
Total personnel costs	**85,378**	97,266

Details of Directors' remuneration, share options, long term incentive plans and Directors' pension entitlements are disclosed in the Directors' Remuneration Report on pages 50 to 63.

The average number of persons employed by the Group during the year calculated on a monthly basis was:

	2009 Number	2008 Number
Average number of employees	**2,464**	2,774

6 Financial expenses and income

	Before redemption of debenture 2009 £'000	Redemption of debenture 2009 £'000	Total 2009 £'000	Total 2008 £'000
(a) Financial expenses				
Interest expense on bank loans, overdrafts and loan notes	**2,146**	**-**	**2,146**	6,219
Interest on obligations under the defined benefit Pension Scheme	**10,952**	**-**	**10,952**	11,106
Debenture interest expense	**2,136**	**-**	**2,136**	2,275
Premium on redemption of debenture	**-**	**7,259**	**7,259**	-
Finance lease interest expense	**13**	**-**	**13**	27
	15,247	**7,259**	**22,506**	19,627
(b) Financial income				
Expected return on Scheme assets under the defined benefit Pension Scheme	**10,847**	**-**	**10,847**	11,148
Interest receivable and similar income	**97**	**-**	**97**	325
	10,944	**-**	**10,944**	11,473

Details of the redemption of the debenture are set out in Note 17 on page 92.

7 Income tax expense

	Before works closure costs and redemption of debenture 2009 £'000	Works closure costs and redemption of debenture 2009 £'000	Total 2009 £'000	Before works closure costs, goodwill and intangible asset impairments 2008 £'000	Works closure costs, goodwill and intangible asset impairments 2008 £'000	Total 2008 £'000
Current tax expense						
Current year	**3,297**	**(3,297)**	**-**	3,083	(2,005)	1,078
Adjustments for prior years	**(2,955)**	**-**	**(2,955)**	(1,241)	-	(1,241)
	342	**(3,297)**	**(2,955)**	1,842	(2,005)	(163)
Deferred taxation expense						
Origination and reversal of temporary differences:						
Current year	**1,278**	**(756)**	**522**	4,655	(2,551)	2,104
Adjustments for prior years	**815**	**-**	**815**	(247)	-	(247)
Income tax expense/(credit) in the Consolidated Income Statement	**2,435**	**(4,053)**	**(1,618)**	6,250	(4,556)	1,694

Reconciliation of effective tax rate	2009 %	2009 £'000	2008 %	2008 £'000
Loss before tax	**100.0**	**(2,370)**	100.0	(4,527)
Tax using domestic corporation tax rate	**28.0**	**(664)**	28.0	(1,267)
Disallowed amortisation/impairment of intangible assets	**(10.4)**	**246**	(62.8)	2,843
Net items not taxable	**(39.7)**	**940**	(35.5)	1,606
Adjustments for prior years	**90.4**	**(2,140)**	32.9	(1,488)
	68.3	**(1,618)**	(37.4)	1,694

The net amount of deferred taxation credited to the Consolidated Statement of Comprehensive Income in the year was £15,630,000 (2008: £7,696,000 debit).

8 Earnings per share

Basic loss per share of 0.42 pence (2008: 3.98 pence) per share is calculated by dividing the loss attributable to ordinary shareholders from total operations of £752,000 (2008: £6,221,000) by the theoretical ex-rights weighted average number of shares in issue during the year of 179,596,717 (2008: 156,190,540).

Basic earnings per share before works closure costs, goodwill and intangible asset impairments and redemption of debenture of 5.38 pence (2008: 10.38 pence) per share is calculated by dividing the profit before works closure costs, goodwill and intangible asset impairments and redemption of debenture of £9,671,000 (2008: £16,212,000) by the theoretical ex-rights weighted average number of shares in issue during the year of 179,596,717 (2008: 156,190,540).

Loss attributable to ordinary shareholders

	2009 £'000	2008 £'000
Profit attributable to ordinary shareholders before works closure costs, goodwill and intangible asset impairments and redemption of debenture	**9,671**	16,212
Works closure costs, goodwill and intangible asset impairments and redemption of debenture (net of taxation)	**(10,423)**	(22,433)
Loss attributable to ordinary shareholders	**(752)**	(6,221)

Weighted average number of ordinary shares

	2009 Number	2008 Number
Number of issued ordinary shares (at beginning of the year)	**143,106,254**	143,106,254
Weighted average number of Rights Issue shares	**40,282,221**	16,556,197
Effect of shares transferred into employee benefit trust	**(1,366,758)**	(1,046,911)
Effect of treasury shares acquired	**(2,425,000)**	(2,425,000)
Weighted average number of ordinary shares at end of period	**179,596,717**	156,190,540

For the years ended 31 December 2009 and 31 December 2008 the potential ordinary shares set out below are considered to be anti-dilutive to the total earnings per share calculation.

Diluted earnings per share before works closure costs, goodwill and intangible asset impairments and redemption of debenture of 5.28 pence (2008: 10.26 pence) per share is calculated by dividing the profit attributable to ordinary shares and potentially dilutive ordinary shares of £9,671,000 (2008: £16,212,000) by the theoretical ex-rights weighted average number of shares in issue during the period of 179,596,717 (2008: 156,190,540) plus potentially dilutive shares of 3,737,128 (2008: 1,844,712) which totals 183,333,845 (2008: 158,035,252).

Weighted average number of ordinary shares (diluted)

	2009 Number	2008 Number
Weighted average number of ordinary shares	**179,596,717**	156,190,540
Effect of shares transferred into employee benefit trust	**1,194,754**	1,171,041
Effect of treasury shares acquired in the period	**2,542,374**	673,671
Weighted average number of ordinary shares (diluted)	**183,333,845**	158,035,252

Prior period earnings per share have been adjusted by the "bonus factor" inherent in the Rights Issue disclosed in Note 21.

9 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.

	Pence per qualifying share (restated)*	Pence per qualifying share (original)	**2009 £'000**	2008 £'000
2009 final	3.50	3.50	**6,862**	
2009 interim	1.75	1.75	**3,447**	
	5.25	5.25	**10,309**	
2008 final	1.30	1.45		2,013
2008 interim	4.07	4.55		6,365
	5.37	6.00		8,378

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

	Pence per qualifying share (restated)*	Pence per qualifying share (original)	**2009 £'000**	2008 £'000
2009 interim	1.75	1.75	**3,447**	
2008 final	1.30	1.45	**2,013**	
	3.05	3.20	**5,460**	
2008 interim	4.07	4.55		6,365
2007 final	8.31	9.30		13,009
	12.38	13.85		19,374

The 2009 final dividend of 3.50 pence per qualifying ordinary share, total value £6,862,000, will be paid on 2 July 2010 to shareholders registered at the close of business on 4 June 2010.

* Prior period dividends per share have been adjusted by the "bonus factor" inherent in the Rights Issue disclosed in Note 21.

10 Property, plant and equipment

Cost	Land and buildings £'000	Quarries £'000	Plant, machinery and vehicles £'000	Total £'000
At 1 January 2008	88,032	13,950	281,802	383,784
Transfer from intangible assets (Note 11)	-	9,446	-	9,446
Acquisitions through business combinations (Note 23)	-	4,428	144	4,572
Other acquisitions	3,897	-	17,345	21,242
Disposals	(20)	-	(2,539)	(2,559)
At 31 December 2008	91,909	27,824	296,752	416,485
At 1 January 2009	**91,909**	**27,824**	**296,752**	**416,485**
Acquisitions	**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**
Depreciation and impairment losses				
At 1 January 2008	23,177	3,780	147,514	174,471
Depreciation charge for the year	3,002	174	18,262	21,438
Disposals	(20)	-	(1,948)	(1,968)
Impairment losses	2,246	-	3,410	5,656
At 31 December 2008	28,405	3,954	167,238	199,597
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**
Net Book Value				
At 1 January 2008	64,855	10,170	134,288	209,313
At 1 January 2009	63,504	23,870	129,514	216,888
At 31 December 2009	**60,008**	**23,393**	**119,169**	**202,570**

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, quarries (representing mineral reserves including associated land) have been separately disclosed under the caption of "Quarries".

The carrying amount of tangible fixed assets includes £338,000 (2008: £1,031,000) in respect of assets held under finance leases.

Group cost of land and buildings and plant and machinery includes £593,000 (2008: £1,360,000) and £2,132,000 (2008: £5,561,000) respectively for assets in the course of construction.

	2009 £'000	2008 £'000
Capital expenditure that has been contracted for but for which no provision has been made in the Consolidated Financial Statements	**1,964**	3,698

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 2008	52,619	2,210	2,400	2,605	159	1,533	61,526
Transfer to quarries (Note 10)	(9,446)	-	-	-	-	-	(9,446)
Additions	-	-	-	-	-	803	803
At 31 December 2008	43,173	2,210	2,400	2,605	159	2,336	52,883
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**
Amortisation and impairment losses							
At 1 January 2008	-	301	494	383	29	172	1,379
Amortisation for the year	-	208	134	235	8	256	841
Impairment losses (Note 4)	8,912	-	-	400	-	-	9,312
At 31 December 2008	8,912	509	628	1,018	37	428	11,532
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**
Carrying amounts							
At 1 January 2008	52,619	1,909	1,906	2,222	130	1,361	60,147
At 1 January 2009	34,261	1,701	1,772	1,587	122	1,908	41,351
At 31 December 2009	**34,261**	**1,553**	**1,638**	**1,445**	**114**	**2,548**	**41,559**

All goodwill has arisen from business combinations. The carrying amount of goodwill is allocated across Cash Generating Units ("CGUs") and these CGUs are independent sources of income streams and represent the lowest level within the Group at which the associated goodwill is monitored for management purposes. The Group tests goodwill annually for impairment, or more frequently if there are indications that goodwill might be impaired. As detailed in Note 4, goodwill impairments totalling £8,912,000 were made during the year ended 31 December 2008 primarily in respect of the full amount of goodwill that related to the Premier Mortars and Compton CGUs.

The recoverable amounts of the CGUs are determined from value in use calculations and at both 31 December 2009 and 31 December 2008 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

11 Intangible assets (continued)

discount rates used to calculate the value in use range from 10.2 per cent to 12.7 per cent (2008: 10.5 per cent to 13.0 per cent), with the pre-tax discount rate used for the Landscape Products CGU being 11.7 per cent (2008: 12.0 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.

When accounting for the acquisition of Gwryhd quarries in August 2008 the Directors reconsidered the accounting for quarries and the fact that the development of mineral reserves had become a key part of the Group's development strategy. Consequently, the Directors were of the opinion that the "fair value" of such assets should be reflected more appropriately in the financial statements under tangible fixed assets (rather than goodwill). For this reason in the year ended 31 December 2008, a reclassification was made between goodwill and tangible fixed assets to reflect this revised treatment for quarries. The prior year figures were not restated on the grounds of materiality because, as long life assets, the annual amortisation charge through the Income Statement is not material and the capital value in the context of the Group's total assets is also immaterial.

Included in software additions is £703,000 (2008: £532,000) of own work capitalised.

Amortisation charge

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

	2009	2008
	£'000	£'000
Net operating costs (Note 3)	**877**	841

12 Investment in associates

	£'000
Carrying value	
At 1 January 2009	2,113
Share of results of associates	5
At 31 December 2009	2,118

		2009	2008
		£'000	£'000
Investment at cost	- cash	**2,182**	2,176
	- accrued fees	**-**	6
Cumulative share of results of associates		**(64)**	(69)
Carrying value at 31 December		**2,118**	2,113

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

The Group's share of results of associates in the year ended 31 December 2009 was £5,000 profit (2008: £69,000 loss) and, on the grounds of materiality, no additional disclosure has been made.

13 Inventories

	2009 £'000	2008 £'000
Raw materials and consumables	**9,253**	11,426
Finished goods and goods for resale	**72,934**	78,388
	82,187	89,814

Inventories stated at fair value less cost to sell at 31 December 2009 amounted to £4,925,000 (2008: £4,218,000). The write down of inventories made during the year amounted to £1,509,000 (2008: £1,295,000). There were no reversals of inventory write downs made in previous years either in 2009 or 2008.

14 Trade and other receivables

	2009 £'000	2008 £'000
Trade receivables	**21,325**	25,240
Other receivables	**4,773**	2,168
Prepayments and accrued income	**5,169**	4,817
	31,267	32,225

Ageing of trade receivables	2009 £'000	2008 £'000
Less than 30 days	**12,624**	15,028
31 - 60 days	**7,394**	7,431
61-90 days	**845**	1,547
More than 90 days	**462**	1,234
	21,325	25,240

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

	2009 £'000	2008 £'000
Bank balances	**9,279**	534
Cash in hand	**4**	4
Cash and cash equivalents in the Consolidated Cash Flow Statement	**9,283**	538

16 Trade and other payables

	2009 £'000	2008 £'000
Current liabilities		
Trade payables	**28,373**	31,708
Taxation and social security	**4,226**	4,575
Other payables	**7,020**	4,426
Accruals	**13,629**	21,071
All trade payables are due in six months or less.	**53,248**	61,780

17 Loans

	2009 £'000	2008 £'000
Current liabilities		
Bank loans	**20,000**	23,327
Finance lease liabilities	**39**	102
	20,039	23,429
Non-current liabilities		
Bank loans	**58,400**	68,400
11.375% debenture stock 1992/2014	**-**	20,000
Finance lease liabilities	**-**	39
	58,400	88,439

Debenture stock

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

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 has been disclosed as an exceptional financing cost.

The Group has significant committed facilities in place with a positive spread of medium term maturities and has used these facilities to redeem the Debenture Stock.

Bank loans

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

Finance lease liabilities

	Minimum lease 2009 £'000	Interest 2009 £'000	Principal 2009 £'000	Minimum lease 2008 £'000	Interest 2008 £'000	Principal 2008 £'000
Less than one year	**45**	**6**	**39**	115	13	102
Between one and five years	**-**	**-**	**-**	45	6	39
	45	**6**	**39**	160	19	141

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 had in issue the following non-equity funding instruments, further details of which are set out in Note 17:

- Debenture stock
- Bank loans
- Finance lease liabilities

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

The main risks arising from the Group's financial instruments are interest rate risk, liquidity risk and exchange rate risk. The Board reviews and agrees the policies for managing each of these risks and they have remained unchanged since 2008.

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 23 to 25. 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 would consider using interest rate swaps to generate the desired interest rate profile, thereby managing the Group's exposure to interest rate fluctuations.

(c) Credit risk

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

18 Financial instruments (continued)

(c) Credit risk (continued)

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

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

(d) Foreign currency risk

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

The Group's policy is to cover all significant foreign currency commitments in respect of trade receivables and trade payables by using forward foreign currency contracts. Most of the forward exchange 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 £919,000 (2008: £1,570,000) and is adjusted against the hedging reserve on an ongoing basis. At 31 December 2009 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 23 to 25.

Sensitivity analysis

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

The principal risk relates to interest rates. A one per cent increase in interest rates would lead to an increase in the Group's financial expenses of approximately £0.8 million. A one per cent decrease in interest rates would reduce the Group's financial expenses by approximately £0.8 million.

Effective interest rates and maturity of liabilities

At 31 December 2009 there were no (2008: 18.0 per cent) Group borrowings on a fixed rate. The interest rate profile of the financial liabilities were:

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	More than 5 years £'000
Cash and cash equivalents (Note 15)	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**	**-**

18 Financial instruments (continued)

Effective interest rates and maturity of liabilities (continued)

31 December 2008	Fixed or variable rate	Effective interest rate %	Total £'000	6 months or less £'000	6-12 months £'000	1-2 years £'000	2-5 years £'000	More than 5 years £'000
Cash and cash equivalents (Note 15)	Variable	5.87	(538)	(538)	-	-	-	-
Bank loans	Variable	5.87	91,727	-	23,327	-	68,400	-
11.375% debenture stock 1992/2014	Fixed	11.375	20,000	-	-	-	-	20,000
Finance lease liabilities	Variable	7.9	141	51	51	39	-	-
			111,330	(487)	23,378	39	68,400	20,000

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

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

31 December 2008	Total £'000	6 months or less £'000	6-12 months £'000	1-2 years £'000	2-5 years £'000	More than 5 years £'000
Bank loans	97,457	1,151	24,285	1,712	70,309	-
11.375% Debenture stock 1992/2014	33,650	1,138	1,138	2,275	6,825	22,274
Finance lease liabilities	141	51	51	39	-	-
Trade payables	31,708	31,708	-	-	-	-
	162,956	34,048	25,474	4,026	77,134	22,274

The outstanding contractual payments (including interest) in relation to operating leases are disclosed in Note 24.

Borrowing facilities

The total borrowing facilities at 31 December 2009 amounted to £168.4 million (2008: £186.7 million) of which total bank borrowing facilities amounted to £168.4 million (2008: £166.7 million) and of which £90.0 million (2008: £75.0 million) remained unutilised. This follows receipt of £34.0 million (net of expenses) from the proceeds of the Rights Issue. 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 2009, in respect of which all conditions precedent had been met, were as follows:

18 Financial instruments (continued)

Borrowing facilities

	2009 £'000	2008 £'000
Committed:		
- Expiring in more than two years but not more than five years	**65,000**	50,000
Uncommitted:		
- Expiring in one year or less	**25,000**	25,000
	90,000	75,000

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

	Facility £'000	Cumulative Facility £'000
Committed facilities:		
Q1 2013	50,000	50,000
Q4 2012	25,000	75,000
Q3 2011	48,400	123,400
Q3 2010	20,000	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 2009 are shown below:

	2009 Book amount £'000	2009 Fair Value £'000	2008 Book amount £'000	2008 Fair value £'000
Trade and other receivables	**31,267**	**31,267**	32,225	32,225
Cash and cash equivalents	**9,283**	**9,283**	538	538
Bank loans	**(78,400)**	**(70,306)**	(91,727)	(69,068)
11.375 per cent debenture stock 1992/2014	**-**	**-**	(20,000)	(26,593)
Finance lease liabilities	**(39)**	**(39)**	(141)	(141)
Trade and other payables	**(53,248)**	**(53,248)**	(61,780)	(61,780)
Financial assets/(liabilities)	**(91,137)**		(140,885)	
Other assets/(liabilities) – net	**272,236**		334,122	
	181,099		193,237	

18 Financial instruments (continued)

Estimation of fair values

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

(a) Derivatives

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

(b) Interest-bearing loans and borrowings

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

(c) Finance lease liabilities

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

(d) Trade and other receivables/payables

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

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.

	2009	2008	2007	2006	2005
	£'000	£'000	£'000	£'000	£'000
Present value of funded obligations	**(221,895)**	(167,312)	(194,782)	(209,152)	(212,245)
Fair value of Scheme assets	**183,939**	183,813	176,987	167,207	146,981
(Net liability)/surplus in the Scheme for defined benefit obligations (see below)	**(37,956)**	16,501	(17,795)	(41,945)	(65,264)
Experience adjustments on Scheme liabilities	**(51,099)**	31,184	17,749	4,988	(28,123)
Experience adjustments on Scheme assets	**(4,903)**	(3,530)	33	5,501	15,881

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

	2009	2008
	£'000	£'000
Surplus/(net liability) for defined benefit obligations at 1 January	**16,501**	(17,795)
Contributions received	**1,650**	6,600
(Loss)/gain recognised in the Consolidated Income Statement	**(105)**	42
Actuarial (losses)/gains recognised in the Consolidated Statement of Comprehensive Income	**(56,002)**	27,654
(Net liability)/surplus in the Scheme for the defined benefit obligations at 31 December	**(37,956)**	16,501

(Expense)/income recognised in the Consolidated Income Statement	**2009**	2008
	£'000	£'000
Interest on obligations (financial expenses)	**(10,952)**	(11,106)
Expected return on Scheme assets (financial income)	**10,847**	11,148
	(105)	42

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

19 Employee benefits (continued)

Liabilities for defined benefit obligations

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

	2009	2008
Discount rate (AA corporate bond rate)	**5.8%**	6.7%
Inflation	**3.5%**	2.8%
Future pension increases	**3.5%**	2.8%
Expected return on Scheme assets	**6.5%**	6.0%
Future expected lifetime of pensioner at age 65 (years):		
Male:	**20.5**	20.4
Female:	**23.5**	23.4

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

	2009	2008
	£'000	£'000
Benefit obligation at 1 January	**167,312**	194,782
Interest cost	**10,952**	11,106
Actuarial deficit/(gain)	**51,099**	(31,184)
Benefits paid	**(7,468)**	(7,392)
Benefit obligation at 31 December	**221,895**	167,312

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

	2009	2008
	£'000	£'000
Fair value of Scheme assets at 1 January	**183,813**	176,987
Expected return on Scheme assets	**10,847**	11,148
Actuarial loss	**(4,903)**	(3,530)
Employer contribution	**1,650**	6,600
Benefits paid	**(7,468)**	(7,392)
Fair value of Scheme assets at 31 December	**183,939**	183,813

The Directors estimate that in the year ending 31 December 2010, employer contributions amounting to £6.6 million will be paid into the Pension Scheme.

19 Employee benefits (continued)

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

	2009		2008	
	£'000	**%**	£'000	%
Equities	**75,275**	**41**	61,134	33
Bonds	**4,958**	**2**	19,327	11
Cash	**845**	**1**	4,207	2
Insured pensioners	**1,438**	**1**	1,323	1
Liability driven investments	**101,423**	**55**	97,822	53
	183,939	**100**	183,813	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 £4 million in Scheme liabilities. This sensitivity would be partially offset 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 £2 million, although this should be partially offset 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 million. Risk management remains a core theme of the Group's Pension Scheme strategy evidenced by the transfer of a proportion of Scheme assets from equities to liability driven investments which 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 Share and Performance Share Awards 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 50 to 63.

The Performance and Matching Share Awards 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 awards made prior to 31 December 2009 and there is no entitlement to dividends during the vesting period. There are no market conditions associated with these instruments.

19 Employee benefits (continued)

	Number of options	Date of grant	Vesting period
Equity settled awards granted to Directors of Marshalls plc	555,472	10 March 2008	3 years
	240,127	13 March 2008	3 years
	1,610,704	12 March 2009	3 years
Equity settled awards granted to other employees of the Group	41,203	10 March 2008	3 years
	198,780	13 March 2008	3 years
	1,346,553	12 March 2009	3 years
	3,992,839		

	Weighted average share price at date of grant (pence per share) 2009	**Number of options 2009**	Weighted average share price at date of grant (pence per share) 2008	Number of options 2008
Outstanding at 1 January	**288**	**1,544,669**	346	891,846
Granted	**78**	**2,642,776**	249	925,468
Forfeited	**-**	**-**	353	(28,584)
Lapsed	**346**	**(619,201)**	345	(244,061)
Rights Issue adjustment	**-**	**424,595**	-	-
Outstanding at 31 December	**122**	**3,992,839**	288	1,544,669

There were no share options exercised during the period. None of the options were exercisable at 31 December 2009. Awards of matching shares made in 2006 and 2007 lapsed.

The fair value of services received in return for Matching Share Awards 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.

	12 March 2009 grant	13 March 2008 grant	10 March 2008 grant	7 September 2007 grant
Fair value at grant date (pence per share)	65	220	216	335
Share price on date of grant (pence per share)	78	248	249	379
Expected volatility used in the modelling under the Black-Scholes valuation model	50.0%	14.0%	14.0%	14.0%
Dividend yield	6.0%	4.0%	4.0%	4.0%
Risk-free interest rate (based on national government bonds)	1.75%	5.25%	5.25%	5.50%

The Company's share price at 31 December 2009 was 86p.

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.

19 Employee benefits (continued)

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

	2009	2008
	£'000	£'000
Awards granted in 2009	**245**	-
Effect of changes in the number of shares expected to vest	**-**	(994)
Total expense/(income) recognised as employee costs	**245**	(994)

Further details in relation to the Directors are set out in the Directors' Remuneration Report on pages 50 to 63.

Employee profit sharing scheme

At 31 December 2009 42,414 (2008: 42,414) ordinary shares in the Company were held for former members of the Group's employee profit sharing scheme.

20 Deferred taxation

Recognised deferred taxation assets and liabilities

	Assets		Liabilities	
	2009	2008	**2009**	2008
	£'000	£'000	**£'000**	£'000
Property, plant and equipment	**-**	-	**(20,393)**	(20,176)
Intangible assets	**-**	-	**(1,481)**	(1,506)
Inventories	**-**	-	**(941)**	(872)
Employee benefits	**10,627**	-	**-**	(4,620)
Pension contributions	**-**	712	**-**	-
Equity settled share based expenses	**69**	-	**-**	-
Other items	**-**	50	**(2,278)**	(2,278)
Tax assets/(liabilities)	**10,696**	762	**(25,093)**	(29,452)

The deferred taxation asset of £10,627,000 (2008: £4,620,000 deferred taxation liability) in relation to employee benefits is in respect of the net deficit for the defined benefit obligations of the Pension Scheme of £37,956,000 (2008: £16,501,000 net surplus) (Note 19) calculated at 28% (2008: 28%).

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

20 Deferred taxation (continued)

Movement in temporary differences

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)**

Year ended 31 December 2008	1 January 2008 £'000	Recognised in income £'000	Recognised in equity £'000	31 December 2008 £'000
Property, plant and equipment	(21,407)	1,231	-	(20,176)
Intangible assets	(1,809)	303	-	(1,506)
Inventories	(840)	(32)	-	(872)
Employee benefits	4,983	(1,861)	(7,742)	(4,620)
Pension contributions	1,424	(712)	-	712
Equity settled share based expenses	278	(278)	-	-
Other items	(1,766)	(508)	46	(2,228)
	(19,137)	(1,857)	(7,696)	(28,690)

21 Capital and reserves

As at 31 December 2009, the authorised, issued and fully paid up share capital was as follows:

	Authorised			
	2009 Number	**2009 Nominal Value £'000**	2008 Number	2008 Nominal Value £'000
Ordinary Shares	**300,000,000**	**75,000**	300,000,000	75,000
B shares	**168,000,000**	**75,600**	168,000,000	75,600
	468,000,000	**150,600**	468,000,000	150,600

	Issued and paid up			
Ordinary shares	**2009 Number**	**2009 Nominal Value £'000**	2008 Number	2008 Nominal Value £'000
At 1 January	**143,106,254**	**35,777**	143,106,254	35,777
Issued in the period	**56,272,501**	**14,068**	-	-
At 31 December	**199,378,755**	**49,845**	143,106,254	35,777

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) has been 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 plc (the previous holding company) was transferred to a consolidation reserve.

Dividends

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

	2009 £'000	2008 £'000
3.50 pence (2008: 1.30 pence) per ordinary share	**6,862**	2,013

Prior period dividends per share have been adjusted by the "bonus factor" inherent in the Rights Issue.

22 Analysis of net debt

	1 January 2009 £'000	Cash flow £'000	**31 December 2009 £'000**
Cash at bank and in hand	538	8,745	**9,283**
Debt due within one year	(23,327)	3,327	**(20,000)**
Debt due after one year	(88,400)	30,000	**(58,400)**
Finance leases	(141)	102	**(39)**
	(111,330)	42,174	**(69,156)**

Reconciliation of Net Cash Flow to Movement in Net Debt

	2009 £'000	2008 £'000
Net increase in cash and cash equivalents	**8,745**	28,359
Cash outflow/(inflow) from (decrease)/increase in debt and lease financing	**33,429**	(42,763)
Movement in net debt in the period	**42,174**	(14,404)
Net debt at 1 January	**(111,330)**	(96,926)
Net debt at 31 December	**(69,156)**	(111,330)

23 Acquisitions of subsidiaries

Year ended 31 December 2008

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

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

23 Acquisitions of subsidiaries (continued)

Year ended 31 December 2008 (continued)

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

The deferred consideration of £750,000 disclosed above was paid on 28 August 2009.

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

24 Operating leases

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

31 December 2009	Total **£'000**	6 months or less **£'000**	6-12 months **£'000**	1-2 years **£'000**	2-5 years **£'000**	More than 5 years **£'000**
Expiring:						
within one year	**923**	**96**	**827**	**-**	**-**	**-**
between one 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**

31 December 2008	Total £'000	6 months or less £'000	6-12 months £'000	1-2 years £'000	2-5 years £'000	More than 5 years £'000
Expiring:						
within one year	552	95	457	-	-	-
between one and five years	25,502	-	-	2,703	22,799	-
in more than five years	19,417	-	-	-	-	19,417
	45,471	95	457	2,703	22,799	19,417

Certain leased properties have been sublet by the Group. Rental payments of £47,370 (2008: £67,170) are expected to be received during the following financial year. An amount of £63,438 (2008: £94,870) was recognised as income in the Consolidated Income Statement within net operating costs in respect of subleases.

25 Contingencies

Royal Bank of Scotland plc has issued irrevocable letters of credit on behalf of Marshalls plc, totalling £2,400,000 (2008: £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 capped self insured element of employers liability insurance cover in relation to the periods ending between 31 October 2005 and 31 October 2010 inclusive.

26 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 0.50 per cent (2008: 0.52 per cent) of the voting shares of the Company.

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 50 to 63.

27 Accounting estimates and judgements

Management has 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 73 to 81.

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 94.

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 an independent qualified Actuary. Sensitivity analysis is disclosed in Note 19 on page 100.

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 2009

	Notes	2009 £'000	2008 £'000
Fixed assets			
Investments	31	**338,469**	338,340
Current assets			
Debtors	32	**37,597**	11,003
Cash at bank and in hand		**338**	338
Net current assets		**37,935**	11,341
Net assets		**376,404**	349,681
Capital and reserves			
Called up share capital	34	**49,845**	35,777
Share premium account	35	**22,695**	2,734
Own shares	35	**(9,472)**	(9,472)
Capital redemption reserve	35	**75,394**	75,394
Equity reserve	35	**129**	-
Profit and loss account	35	**237,813**	245,248
Equity shareholders' funds		**376,404**	349,681

Approved at a Directors' meeting on 5 March 2010.
On behalf of the Board:

D.G. Holden
Chief Executive

I.D. Burrell
Finance Director

The notes on pages 109 to 114 form part of these Company Financial Statements.

Company Reconciliation of Movements in Shareholders' Funds

for the year ended 31 December 2009

	2009 £'000	2008 £'000
(Loss)/profit for the financial year	**(2,091)**	2,551
Equity dividends	**(5,460)**	(19,374)
Deficit for the financial year	**(7,551)**	(16,823)
Shares issued	**36,588**	-
Share issue costs	**(2,559)**	-
Purchase of own shares	**-**	(606)
Share based expenses	**245**	(994)
Net additions to/(reduction in) shareholders' funds	**26,723**	(18,423)
Shareholders' funds at beginning of year	**349,681**	368,104
Shareholders' funds at end of year	**376,404**	349,681

The notes on pages 109 to 114 form part of these Company Financial Statements.

Notes to the Company Financial Statements

28 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 pages 68 to 107.

(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.

28 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 section of the 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 FRS19 - *"Deferred Taxation"*, between profits computed for taxation purposes and profits stated in the Financial Statements to the extent that there is an obligation to pay more tax in the future as a result of those timing differences. Deferred taxation assets are recognised to the extent that they are expected to be recoverable. Deferred taxation assets and liabilities are not discounted.

28 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).

29 Operating costs

The audit fee for the Company was £20,000 (2008: £20,000). This is in respect of the audit of the Company 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.

30 Ordinary dividends: equity shares

	2009		2008	
	per share	**£'000**	per share	£'000
2008 Final: paid 3 July 2009	**1.30p**	**2,013**	8.31p	13,009
2009 Interim: paid 2 December 2009	**1.75p**	**3,447**	4.07p	6,365
	3.05p	**5,460**	12.38p	19,374

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.

	2009	2008
	£'000	£'000
3.50 pence (2008: 1.30 pence) per ordinary share	**6,862**	2,013

Prior period dividends per share have been adjusted by the "bonus factor" inherent in the Rights Issue.

31 Investments

	£'000
At 1 January 2009	338,340
Additions	129
At 31 December 2009	**338,469**

Investments comprise shares in the subsidiary undertaking, Marshalls Group Limited. The Directors have considered the carrying value of the Company's investments and are satisfied that no provision is required.

The increase in the year of £129,000 represents an adjustment to the number of shares expected to vest in respect of LTIP awards granted to relevant employees.

The principal wholly owned subsidiary undertakings of Marshalls plc at 31 December 2009 are set out below. All the companies operate within the United Kingdom and are registered in England and Wales.

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

* held by subsidiary undertaking

32 Debtors

	2009	2008
	£'000	£'000
Amounts owed by subsidiary undertakings	**36,782**	10,166
Corporation tax	**813**	835
Other debtors	**2**	2
	37,597	11,003

No debtors were due after more than one year.

33 Deferred taxation

There is no deferred taxation in the Company.

34 Share capital

As at 31 December 2009, the authorised, issued and fully paid up share capital was as follows:

	Authorised			
	2009 Number	**2009 Nominal Value £'000**	2008 Number	2008 Nominal Value £'000
Ordinary Shares	**300,000,000**	**75,000**	300,000,000	75,000
B shares	**168,000,000**	**75,600**	168,000,000	75,600
	468,000,000	**150,600**	468,000,000	150,600

	Issued and paid up			
Ordinary shares	**2009 Number**	**2009 Nominal Value £'000**	2008 Number	2008 Nominal Value £'000
At 1 January	**143,106,254**	**35,777**	143,106,254	35,777
Issued in the period	**56,272,501**	**14,068**	-	-
At 31 December	**199,378,755**	**49,845**	143,106,254	35,777

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 has been credited to the share premium account in respect of this issue.

Disclosures regarding share based payments are given in Note 19 on pages 100 to 102.

35 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 2009	35,777	2,734	(9,472)	75,394	-	245,248
Share based expenses	-	-	-	-	129	116
Shares issued	14,068	22,520	-	-	-	-
Share issue costs	-	(2,559)	-	-	-	-
Loss for the financial year (net of dividends)	-	-	-	-	-	(7,551)
At 31 December 2009	**49,845**	**22,695**	**(9,472)**	**75,394**	**129**	**237,813**

36 Capital and leasing commitments

The Company had no capital or leasing commitments at 31 December 2009 or 31 December 2008.

37 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.

38 Contingent liabilities

Royal Bank of Scotland plc has issued irrevocable letters of credit on behalf of Marshalls plc, totalling £2,400,000 (2008: £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 capped self insurance element of employers liability insurance cover in relation to the periods ending between 31 October 2005 and 31 October 2010 inclusive.

39 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 when the existing defined benefit section was 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 2008 and was updated for FRS 17 purposes to 31 December 2009 by a qualified independent Actuary. Certain employees are members of the Company's defined contribution section of the 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 2009 was £37,956,000 (2008: £nil).

Shareholder Information

Shareholder analysis at 31 December 2009

Size of Shareholding	*Number of Shareholders*	*%*	*Number of Ordinary Shares*	*%*
1 to 500	2,077	36.97	323,999	0.16
501 to 1,000	692	12.32	516,785	0.26
1,001 to 2,500	1,111	19.78	1,869,446	0.94
2,501 to 5,000	715	12.73	2,534,609	1.27
5,001 to 10,000	418	7.44	2,976,594	1.49
10,001 to 25,000	236	4.20	3,672,449	1.84
25,001 to 100,000	172	3.06	8,384,655	4.21
100,001 to 250,000	71	1.26	11,370,090	5.70
250,001 to 500,000	42	0.75	15,831,573	7.94
500,001 and above	84	1.49	151,898,555	76.19
	5,618	100.00	199,378,755	100.00

Financial calendar

Preliminary Announcement of results for the year ended 31 December 2009	Announced	5 March 2010
Annual General Meeting		12 May 2010
Final dividend for the year ended 31 December 2009	Payable	2 July 2010
Half - yearly results for the year ending 31 December 2010	Announcement	27 August 2010
Half - yearly dividend for the year ending 31 December 2010	Payable	3 December 2010
Results for the year ending 31 December 2010	Announcement	Early March 2011

Registrars and general

All administrative enquiries relating to shareholdings should, in the first instance, be directed to the Company's Registrars, Computershare Investor Services PLC, PO Box 82, The Pavilions, Bridgwater Road, Bristol BS99 6ZZ, telephone: 0870 702 0000, fax: 0870 703 6116, and clearly state the registered shareholder's name and address.

Amalgamation of shareholdings

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

Dividend mandate

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

Website

The Group has an internet website which gives information on the Group, its products and provides details of significant Group announcements. The address is www.marshalls.co.uk.

Financial History – Consolidated Group

Consolidated Income Statement	Year to December 2005 £'000	Year to December 2006 £'000	Year to December 2007 £'000	Year to December 2008 £'000	**Year to December 2009 £'000**
Revenue	359,310	378,100	402,926	378,063	**311,685**
Net operating costs	(314,885)	(330,339)	(354,116)	(347,447)	**(295,276)**
Operating profit (before works closure costs, goodwill and intangible asset impairments)	44,425	47,761	48,810	30,616	**16,409**
Works closure costs, goodwill and intangible asset impairments	-	-	-	(26,989)	**(7,217)**
Operating profit	44,425	47,761	48,810	3,627	**9,192**
Financial income and expenses (net)	(6,407)	(6,058)	(6,707)	(8,154)	**(4,303)**
Redemption of debenture	-	-	-	-	**(7,259)**
Profit before tax (before works closure costs, goodwill and intangible asset impairments and redemption of debenture)	38,018	41,703	42,103	22,462	**12,106**
Profit / (loss) before tax	38,018	41,703	42,103	(4,527)	**(2,370)**
Income tax expense	(11,661)	(12,623)	(11,852)	(1,694)	**1,618**
Profit/(loss) after tax but before gain on sale and post tax profit of discontinued operation	26,357	29,080	30,251	(6,221)	**(752)**
Gain on sale and post tax profit of discontinued operations	31,517	-	-	-	**-**
Profit/(loss) for the financial period	57,874	29,080	30,251	(6,221)	**(752)**
Financial Information					
EBITA	44,684	48,118	49,471	4,468	**10,069**
EBITDA	63,400	67,648	70,530	25,906	**28,842**
EBITA before works closure costs, goodwill and intangible asset impairments	44,684	48,118	49,471	31,457*	**17,286***
EBITDA before works closure costs, goodwill and intangible asset impairments	63,400	67,648	70,530	52,895*	**36,059***
Earnings per share (pence) **					
Basic: (continuing operations)	16.58	18.18	19.02	(3.98)	**(0.42)**
Basic: (total operations)	36.41	18.18	19.02	(3.98)	**(0.42)**
Basic: (before works closure costs, goodwill and intangible asset impairments and redemption of debenture)	16.58	18.18	19.02	10.38*	**5.38***
Dividends per share (pence) - IFRS **	10.82	11.35	11.98	12.38	**3.05**
Dividend cover (times) - IFRS	1.53	1.60	1.59	0.84*	**1.76***
Dividends per share (pence) - Traditional **	11.18	11.76	12.38	5.37	**5.25**
Dividend cover (times) - Traditional	1.48	1.55	1.54	1.94*	**1.02***
Year end share price (pence)	312.0	355.0	241.0	90.0	**86.0**
Tax rate (%)	30.7	30.3	28.2	27.8*	**20.1***

* 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	2005 £'000	2006 £'000	2007 £'000	2008 £'000	**2009 £'000**
Non-current assets	264,181	270,626	276,515	277,615	**256,943**
Current assets	109,567	102,568	134,004	122,577	**122,737**
Total assets	373,748	373,194	410,519	400,192	**379,680**
Current liabilities	(64,918)	(70,111)	(104,020)	(89,064)	**(77,132)**
Non-current liabilities	(142,490)	(118,541)	(105,858)	(117,891)	**(121,449)**
Net assets	166,340	184,542	200,641	193,237	**181,099**
Net borrowings	(46,688)	(54,606)	(96,926)	(111,330)	**(69,156)**
Gearing ratio	28.1%	29.6%	48.3%	57.6%	**38.2%**

Mixed Sources
Product group from well-managed forests, controlled sources and recycled wood or fibre
Cert no. SA-COC-1487
www.fsc.org

PRINTED BY TAYLOR BLOXHAM LIMITED