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Marshalls

Preliminary results for the year ended 31 December 2009

Marshalls plc, the specialist Landscape Products Group, announces its full year results

Financial Highlights

	Year ended 31 December 2009	Year ended 31 December 2008
Results before works closure costs, goodwill and intangible asset impairments and redemption of debenture:		
Revenue	£311.7m	£378.1m
EBITDA	£36.1m	£52.9m
Operating profit	£16.4m	£30.6m
Profit before tax	£12.1m	£22.5m
Basic EPS*	5.38p	10.38p
Dividends declared and paid*	3.05p	12.38p
Final dividend recommended*	3.50p	1.30p
Reported results:		
Operating profit	£9.2m	£3.6m
Loss before tax	£(2.4)m	£(4.5)m
Basic EPS*	(0.42)p	(3.98)p

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

Key features of 2009:

- Resilient performance in challenging market conditions and well positioned for recovery
- Major restructuring complete, now focussed on operational optimisation
  - Cost base reduced by £11.4m
  - Installed capacity sufficient for medium term, operating flexibility increased
- Reinforcing focus on customer service
  - Product availability and on time delivery industry leading
  - Additional support for distributors and installers of our products
- Innovation continues
  - Integrated product offers for education and rail
  - Selective investment to launch new products
- Financial flexibility – robust balance sheet and borrowings reduced
  - Completion of Rights Issue raising £34.0m (net of expenses)
  - Redemption of £20.0m debenture to reduce finance charges by £1.7m per annum
  - Strong cash generation with free cash flow of £35.3m
  - Net debt reduced to £69.2m

Commenting on these results, Graham Holden, Chief Executive, said:

"There is still market uncertainty, not least because of the impending election. We have responded by building flexibility into the business, whilst retaining sufficient capacity for the medium term so that we can react quickly and effectively to changing market conditions.

In a difficult market we have achieved a resilient performance and are well positioned for an upturn. We are managing the business tightly and have significantly reduced our cost base. Cash generation has been strong. We are investing selectively in the business to develop new products and new markets and to build on the strong Marshalls brand."

Enquiries:

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Group Results

Marshalls' revenue for the year ended 31 December 2009 was £311.7 million (2008: £378.1 million) from three 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 rightsize 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 difficult, at this stage, to establish an underlying trend.

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 are now largely complete, and this resulted in annual cost savings of approximately £8 million per annum. In addition, the Landscape Installations operations were closed saving a further £3.4 million per annum.

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. This will deliver further operating cost savings over the next two years. The Group remains well placed to cover the whole country from its unique network of regional manufacturing and distribution sites. Greater flexibility has been introduced, both on the upside by having the capacity to operate additional shifts and on the downside by utilising a temporary "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.

EBITDA, before works closure costs, goodwill and intangible asset impairments was £36.1 million (2008: £52.9 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 £4.4 million, comprising redundancy, site decommissioning and plant and asset relocations. The remaining charge of £2.8 million relates to non-cash plant and asset write offs. In addition to the fixed cost savings, there is a one-off benefit from the release of cash from inventory. In 2008 this was around £6 million and in 2009 a further £3 million has been released as a consequence of the works closures. Overall, the cash released from inventory and associated property is expected to exceed the cash cost of the site closures. The programme leaves the Group with well invested modern plants which have sufficient capacity to meet medium term demand requirements efficiently.

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 £27.3 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 will be to reduce finance charges by approximately £1.7 million per annum.

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 due 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).

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).

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.

Operating Performance

The Marshalls operating strategy continues to combine regional manufacturing and distribution sites, known as Service Centres, with national manufacturing works which produce newly introduced and specialist products that have not reached the commercial volumes to justify regional manufacture. The same capital equipment produces products for both the Public Sector and Commercial and Domestic end markets. Marshalls' geographic spread is unique 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.

Against the backdrop of an uncertain economic environment the Group has focussed on short term actions to create greater levels of certainty by reducing costs and conserving cash through 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.

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. 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.

Another important part of Marshalls' strategy is the development of an integrated product offering for the Public Sector and Commercial end market. The Group has good visibility in the Public Sector and Commercial end market and, although the outlook remains challenging, comparatives are easing. There are signs of recovery in house building and Olympic related demand is increasing as the event comes closer. The Group has now received orders of £2 million and enquiries of £14 million, considerably up from the £1 million and £8 million respectively 6 months ago. Looking forward beyond 2010, the Group has continued to develop its marketing approach to focus on types of projects, 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.

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 of paving in the UK which speeds up installation and minimises health and safety issues.

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 depreciation 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. 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.

There are a number of legislative developments and lifestyle trends that are affecting the market place and 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.

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

Corporate Development

The Group continues to look at a range of larger opportunities in the short term but currently 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.

Balance Sheet

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 debtor days remain industry leading. The Group maintains credit insurance which provides excellent intelligence to minimise the number and value of bad debts and ultimately provides compensation if bad debts are incurred. 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 2009 the Scheme's matching assets have, as intended, hedged the Scheme's liabilities. These actions have reduced volatility and risk in financing member benefits. The actuarial liabilities have reduced and therefore the liability driven investment matching assets have also reduced. 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 AA corporate bond rates 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). These changes have resulted 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 plan assets. The values have been determined by the Scheme Actuary using prudent assumptions in line with current market levels for accounting purposes.

Net Debt and Borrowing Facilities

Net debt has reduced from £111.3 million to £69.2 million during the year with gearing at the year end being 38.2 per cent (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 provide the Group with the flexibility to take advantage of strategic and value enhancing organic opportunities which may arise.

The Group renewed its bank facilities in August 2009 and has significant committed facilities in place with a positive spread of medium term maturities. The total bank borrowing facilities 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 Group has significant headroom in its facilities with utilisation at 31 December 2009 representing just over 40 per cent of the available facilities.

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 now being 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 is 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.

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.

Graham Holden
Chief Executive

MARSHALLS PLC
PRELIMINARY ANNOUNCEMENT OF RESULTS
AUDITED 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	5	**(15,247)**	**(7,259)**	**(22,506)**	(19,627)	-	(19,627)
Financial income	5	**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	6	**(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)	7	5.38p		**(0.42)p**	10.38p		(3.98)p
Diluted (restated)	7	5.28p		**(0.42)p**	10.26p		(3.98)p
Dividend:							
Pence per share (restated)	8			**3.05p**			12.38p
Dividends declared	8			**5,460**			19,374

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

AUDITED 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

MARSHALLS PLC
PELIMINARY ANNOUNCEMENT OF RESULTS
AUDITED CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2009

	Notes	2009	2008
Assets		**£'000**	£'000
Non-current assets			
Property, plant and equipment		**202,570**	216,888
Intangible assets		**41,559**	41,351
Investment in associates		**2,118**	2,113
Employee benefits	9	**-**	16,501
Deferred taxation assets		**10,696**	762
		256,943	277,615
Current assets			
Inventories		**82,187**	89,814
Trade and other receivables		**31,267**	32,225
Cash and cash equivalents	11	**9,283**	538
		122,737	122,577
Total assets		**379,680**	400,192
Liabilities			
Current liabilities			
Trade and other payables		**53,248**	61,780
Corporation tax		**3,845**	3,855
Interest bearing loans and borrowings	11	**20,039**	23,429
		77,132	89,064
Non-current liabilities			
Interest bearing loans and borrowings	11	**58,400**	88,439
Employee benefits	9	**37,956**	-
Deferred taxation liabilities		**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	10	**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

MARSHALLS PLC
PRELIMINARY ANNOUNCEMENT OF RESULTS
AUDITED CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2009

	2009	2008
	£'000	£'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 & 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)/increase 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)
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	**9,283**	538

MARSHALLS PLC
PRELIMINARY ANNOUNCEMENT OF RESULTS
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2009

	Share capital	Share premium account	Own shares	Capital redemption reserve	Consolid-ation reserve	Hedging reserve	Retained earnings	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
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)/gains							(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

MARSHALLS PLC
PRELIMINARY ANNOUNCEMENT OF RESULTS
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2009

	Share capital	Share premium account	Own shares	Capital redemption reserve	Consolid-ation reserve	Hedging reserve	Retained earnings	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Prior year								
At 1 January 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 (losses)/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

1. Basis of preparation

Whilst the Financial Information included in this Preliminary Announcement has been prepared on the basis of the requirements of IFRSs in issue, as adopted by the European Union and effective at 31 December 2009, this announcement does not itself contain sufficient information to comply with IFRS. The Group expects to publish full Consolidated Financial Statements in April 2010.

The Financial Information set out in this Preliminary Announcement does not constitute the Company's Consolidated Financial Statements for the years ended 31 December 2009 or 2008, but is derived from those Financial Statements. Statutory Financial Statements for 2008 have been delivered to the Registrar of Companies and those for 2009 will be delivered following the Company's Annual General Meeting. The auditors, KPMG Audit Plc, have reported on those Financial Statements; their reports were unqualified, did not draw attention to any matters by way of emphasis without qualifying their report and did not contain statements under Section 498(2) or (3) of the Companies Act 2006 in respect of the Financial Statements for 2009 nor a statement under Section 237(2) or (3) of the Companies Act 1985 in respect of the Financial Statements for 2008.

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. 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.

Details of the Group's funding position are set out in Note 12 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. 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 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 disclosed in Note 13.

2 Segmental analysis

	Revenue		Operating Profit (before works closure costs, goodwill and intangible asset impairments and redemption of debenture)		Operating Profit	
	2009 £'000	2008 £'000	**2009 £'000**	2008 £'000	**2009 £'000**	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.

	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.

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		**84,244**	91,986
Depreciation	- owned	**18,671**	21,168
	- leased	**102**	270
Amortisation of intangible fixed assets		**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

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 year ended 31 December 2009.

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.

5. 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
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 12.

6. 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

6. Income tax expense (continued)

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).

7. Earnings per share

Basic loss per share of 0.42 pence (2008: 3.98 pence loss) per share is calculated by dividing the loss attributable to ordinary shareholders from total operations of £752,000 (2008: £6,221,000 loss) 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 5.38p 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).

Profit/(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 are considered to be anti-dilutive to the total earnings per share calculation.

7. Earnings per share (continued)

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 £'000	2008 £'000
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.

8. 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		
2008 final	1.30	1.45	**-**	2,013
2008 interim	4.07	4.55	**-**	6,365
	5.37	6.00	**10,309**	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		
2008 interim	4.07	4.55	**-**	6,365
2007 final	8.31	9.30	**-**	13,009
	12.38	13.85	**5,460**	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.

9. 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 £'000	2008 £'000
Present value of funded obligations	**(221,895)**	(167,312)
Fair value of Scheme assets	**183,939**	183,813
(Net liability)/surplus in the Scheme for defined benefit obligations (see below)	**(37,956)**	16,501
Experience adjustments on Scheme liabilities	**(51,099)**	31,184
Experience adjustments on Scheme assets	**(4,903)**	(3,530)

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

	2009 £'000	2008 £'000
Surplus/(net liability) for defined benefit obligations at 1 January	**16,501**	(17,795)
Contributions received	**1,650**	6,600
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

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

10. Share capital

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.

11. 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)

12. 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 2009 and 31 August. The undrawn facilities available at 31 December 2009, in respect of which all conditions precedent had been met, were as follows:

	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

12. Borrowing facilities (continued)

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

Debenture stock

On 10 December 2009, the Group's subsidiary, Marshalls Group Limited, completed the redemption of the £20 million 11.375 per cent Debenture Stock 1992/2014. The total redemption cost was £27.3 million (including costs) and the redemption premium of £7.3 million 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.

13. Principal risks and uncertainties

The principal risks and uncertainties which could impact the Group for the remainder of the current financial year are those detailed in the Group's Annual Report. These cover both Strategic Risks and Financial Risks and have not changed during the period.

Strategic risks include those relating to general economic conditions, government policy, the actions of customers, suppliers and competitors and also weather conditions. Other strategic risks include access to debt funding and uncertainty in financial markets. The Group also 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 other main financial risks arising from the Group's financial instruments are liquidity risk, interest rate risk, credit risk and foreign currency risk. The Group continues to monitor all these risks and pursue policies that take account of, and mitigate, the risks where possible.

14. Annual General Meeting

The Annual General Meeting will be held at Birkby Grange, Birkby Hall Road, Birkby, Huddersfield, West Yorkshire HD2 2YA at 12.00 (noon) on Wednesday 12 May 2010.

Cautionary Statement

This Report contains certain forward looking statements with respect to the financial condition, results, operations and business of Marshalls plc. These statements and forecasts 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 or implied by these forward looking statements and forecasts. Nothing in this Report should be construed as a profit forecast.

Directors' Liability

Neither the Company nor the Directors accept any liability to any person in relation to this Report except to the extent that such liability could arise 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.