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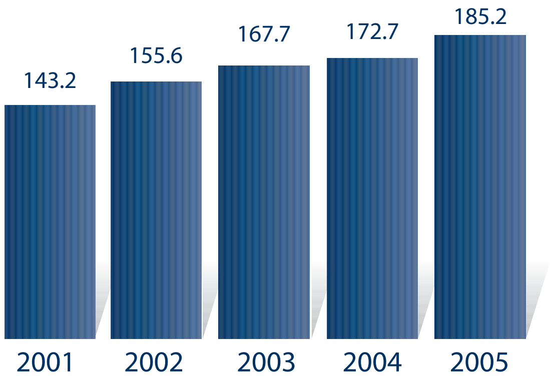
INTERIM REPORT 2005

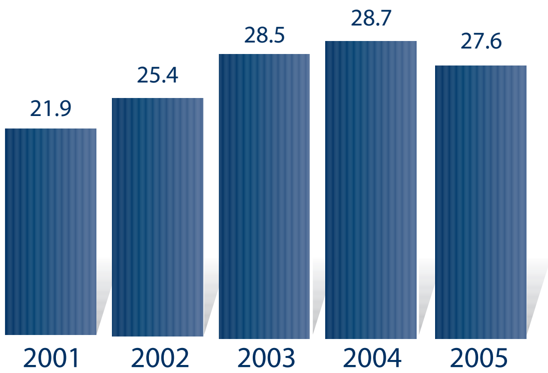
Marshalls

Financial Highlights

Revenue (£m)
Continuing operations

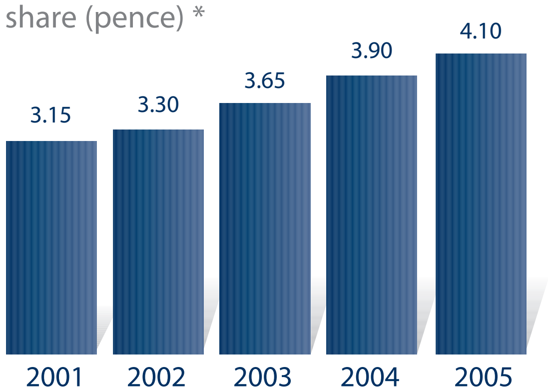


Operating profit (£m)
Continuing operations



Basic earnings per share (pence)
Continuing operations

Interim dividend per ordinary share (pence) *



* In accordance with International Accounting Standards, the proposed interim dividends have not been accrued in the Financial Statements for the half year ended June.

Chief Executive's Review

Group Results

These interim results are reported under International Financial Reporting Standards (IFRSs).

Marshalls' revenue, from continuing operations, was up 7.2 per cent, including acquisitions, in the half year ended 30 June 2005 at £185.2 million (2004: £172.7 million). Like for like revenue on the same basis was down 1.2 per cent at £170.6 million (2004: £172.7 million). Acquisitions contributed an additional £14.6 million.

Operating profit, from continuing operations, for the period was £27.6 million (2004: £28.7 million). Operating profit before the £1.0 million cost of a works closure was £28.6 million (2004: £28.7 million).

The interest cost of £3.4 million (2004: £2.3 million) is £1.1 million higher due primarily to the cost of funding the return of £75 million to shareholders and the 2004 acquisitions, and partially offset by the receipt of £65 million from the proceeds on the sale of the Clay Products business.

Basic earnings per share, from continuing operations, was up 6.9 per cent at 11.80 pence per share (2004: 11.04 pence). Basic earnings per share, from total operations, was 34.01 pence per share (2004: 12.08 pence) including the gain on sale of the Clay Products business.

The interim dividend will be 4.1 pence per share (2004: 3.9 pence per share), an increase of 5.1 per cent.

Operating Performance

Market conditions in the first half of 2005 were more challenging than they have been for a number of years. Revenue from the public sector and commercial market, which represents around half of Group revenue, was ahead of 2004. After an encouraging start to the year, revenue from the domestic market in the second quarter of the year was disappointing, reflecting the widely reported consumer slowdown. In anticipation of this, Marshalls took early action to reduce costs and, as a consequence, has achieved a resilient performance as market volumes have reduced.

The cost base of the Group continues to be reduced. In the first quarter of the year the production facility at Hipperholme, Halifax, was closed and production was moved to the two principal works in Halifax. Costs of £1.0 million were expensed in the first half of the year in connection with this closure and further costs of a similar amount are expected in the second half of the year. In July and August production output throughout the Group has been reduced further to a level which reflects the weaker demand.

In line with the Group's strategy to improve consumer awareness of the Marshalls brand, in March a pilot Marshalls Garden & Driveway Transformation Centre was launched in Falkirk, Scotland. This displays a wide range of garden and driveway products in an aspirational setting. Initial visitor numbers have been encouraging and additional pilot sites are planned in two further locations. Marshalls Drivelines, the sale of installed driveways and patios through twenty four existing Compton garage agents, has also commenced. Sales from these initiatives are installed by Marshalls Register installers who source Marshalls product through their existing builders' merchant contacts.

Corporate Activity

The Group continues to pursue its strategy of acquiring complementary businesses that provide quality products to enhance the core product offer. On 2 September 2005 £8.5 million was paid for Paver Systems (Carluke) Limited based in Scotland. This business will continue to operate as Paver Systems and be managed as part of Stonemarket, the Coventry based patio paving specialist. The process of integrating the 2004 acquisitions into the Group is proceeding according to plan.

On 4 January 2005 Marshalls Clay Products Limited was sold to Hanson PLC for a cash consideration of £65.0 million (including the repayment of all inter-group indebtedness). The post tax gain on sale of this business was £31.5 million. The gain on sale and the results in 2004 of the former Clay Products business have been disclosed under discontinued operations in the Consolidated Interim Income Statement.

Balance Sheet

At 30 June 2005 net debt was £52.3 million. Following the return of £75 million to shareholders in 2004 and the receipt of £65.0 million on the sale of the Clay Products business in January 2005, gearing was 32.8 per cent and is in line with expectations. The Board is committed to ensuring that the balance sheet is efficient and is in the process of reviewing the acquisition and investment opportunities that are available. In the absence of further value adding opportunities the Group will consider a further return to shareholders.

International Financial Reporting Standards (IFRSs)

An explanation of how the transition to IFRSs has affected the reported financial position, financial performance and cash flows of the Group is provided in Note 8. This includes reconciliations of equity and profit for comparative periods previously reported under UK GAAP to the figures reported under IFRSs.

The operating profit shown in the IFRS Income Statement for the half year ended 30 June 2004 is approximately £0.4 million below the reported UK GAAP Profit and Loss Account, of which £0.2 million relates to continuing operations and £0.2 million relates to discontinued operations. The principal changes are associated with additional pension charges following the adoption of International Accounting Standard (IAS) 19 and the absence of goodwill amortisation following the adoption of IFRS 3 and IAS 38. At the interest level an additional notional charge of £0.9 million, on continuing operations, arises in the half year ended 30 June 2004 in respect of the adoption of IAS 19.

The most significant change to the comparative Balance Sheets under IFRS relates to the introduction of the pension deficit in each period. Other adjustments include the de-recognition of dividends not declared at the period end, which were previously accrued under UK GAAP and, as at 31 December 2004, the disclosure of assets and liabilities of the Clay Products business classified as held for sale.

At 30 June 2005 pension liabilities of £65.1 million have been recognised upon adoption of IAS 19 and this is partially offset by a deferred tax asset of £19.5 million. These liabilities were not previously recognised under UK GAAP. This deficit has been calculated using the same actuarial assumptions as at 31 December 2004, modified for a known change in the AA Corporate Bond rate and a strengthening of the mortality assumption.

Basic earnings per share on continuing operations for the half year ended 30 June 2004 is 11.04 pence per share under IFRS compared with 11.36 pence per share under UK GAAP.

Dividend

The Board has decided to declare an interim dividend of 4.1 pence (2004: 3.9 pence) per ordinary share, an increase of 5.1 per cent. This dividend will be paid on 7 December 2005 to shareholders on the register at the close of business on 4 November 2005. The ex-dividend date will be 2 November 2005.

Outlook

Market intelligence shows that public sector and commercial demand, which represents half of Group revenue, remains robust. The Construction Products Association forecasts that the market sectors constituting public sector and commercial are forecast to grow by 1.4 per cent in 2005 and a further 2.4 per cent in 2006. The Group would expect to benefit from large commercial contracts such as Terminal 5 at Heathrow, the preparations for the Olympic Games in London and increasing interest in the municipal environment.

However, domestic markets are expected to remain challenging reflecting weaker consumer confidence. Domestic installers' average order books in July 2005 were 8.9 weeks compared with 10.2 weeks at the beginning of the year and 11.9 weeks at the same time last year. The Construction Products Association forecasts a 4.0 per cent reduction in private housing repair, maintenance and improvement expenditure in 2005 and a further reduction of 2.0 per cent in 2006 before resuming its growth in 2007.

Order intake and despatches since the end of the half year have been at a similar level to the previous year. The continuing review of our cost base, together with our leading product portfolio, innovative marketing techniques, improving performance from recent acquisitions and strong balance sheet ensure that the Group is well positioned to operate within these more difficult market conditions.

Graham Holden
Chief Executive

Consolidated Interim Income Statement

for the half year ended 30 June 2005

	Notes	Half year ended June 2005 £'000	Half year ended June 2004 £'000	Year ended December 2004 £'000
Revenue	2	**185,202**	172,717	328,343
Net operating costs		**(157,588)**	(143,982)	(281,370)
Operating profit	2	**27,614**	28,735	46,973
Financial expenses		**(7,238)**	(5,465)	(12,985)
Financial income		**3,815**	3,160	6,267
Profit before tax	2	**24,191**	26,430	40,255
Income tax expense		**(7,442)**	(7,950)	(12,230)
Profit after tax but before gain on sale and post tax profit of discontinued operation		**16,749**	18,480	28,025
Gain on sale and post tax profit of discontinued operation	3	**31,517**	1,750	3,278
Profit for the financial period		**48,266**	20,230	31,303
Earnings per share (total operations including gain on sale in 2005):				
Basic	4	**34.01p**	12.08p	20.18p
Diluted	4	**33.94p**	12.06p	20.15p
Earnings per share (continuing operations):				
Basic	4	**11.80p**	11.04p	18.07p
Diluted	4	**11.78p**	11.02p	18.04p
Dividend:				
Pence per share	5	**8.00p**	7.35p	11.25p
Dividends paid	5	**11,353**	12,300	17,829

Consolidated Interim Balance Sheet

As at 30 June 2005

	Notes	June 2005 £'000	June 2004 £'000	December 2004 £'000
Assets				
Non-current assets				
Property, plant and equipment		**192,790**	209,999	191,400
Intangible fixed assets		**40,694**	31,017	40,732
		233,484	241,016	232,132
Current assets				
Inventories		**68,616**	60,125	60,501
Trade and other receivables		**67,194**	69,426	37,582
Cash and cash equivalents		**21**	28	21
Assets classified as held for sale	3	**-**	-	36,301
		135,831	129,579	134,405
Total assets		**369,315**	370,595	366,537
Liabilities				
Current liabilities				
Trade and other payables		**99,404**	89,632	75,046
Current instalments of loans		**-**	-	229
Liabilities classified as held for sale	3	**-**	-	8,531
		99,404	89,632	83,806
Non-current liabilities				
Trade and other payables		**2,000**	-	2,000
Interest bearing loans and borrowings		**40,350**	20,000	91,341
Employee benefits		**65,118**	47,820	50,855
Deferred tax		**3,020**	9,000	7,042
		110,488	76,820	151,238
Total liabilities		**209,892**	166,452	235,044
Net assets		**159,423**	204,143	131,493
Equity				
Capital and reserves attributable to equity holders				
Share capital		**35,482**	41,886	35,478
Share premium account		**320**	18,517	287
Own shares		**(444)**	(776)	(655)
Capital redemption reserve		**72,138**	1,483	71,237
Merger reserve		**(213,067)**	13,091	(213,067)
Hedging reserve		**(14)**	(6)	(6)
Retained earnings		**265,008**	129,948	238,219
Equity shareholders' funds		**159,423**	204,143	131,493

Consolidated Interim Cash Flow Statement

for the half year ended 30 June

	Notes	Half year ended June 2005 £'000	Half year ended June 2004 £'000	Year ended December 2004 £'000
Net cashflow from operating activities	6	**1,555**	6,883	42,212
Net cashflow from investing activities	6	**54,270**	(18,406)	(42,111)
Net cashflow from financing activities	6	**(50,920)**	(692)	(24,654)
Net increase/(decrease) in cash and cash equivalents	7	**4,905**	(12,215)	(24,553)
Cash and cash equivalents at beginning of period		**(16,669)**	(12,123)	7,884
Cash and cash equivalents at end of period		**(11,764)**	(24,338)	(16,669)

The above includes the operating, investing and financing cashflows of the discontinued operation disclosed in Note 6. The relevant cash flows of the discontinued operation are included in Note 6.

Consolidated Interim Statement of Recognised Income and Expenses

	2005 £'000	2004 £'000	2004 £'000
Cash flow hedges: effective portion of changes in fair value	**(12)**	(9)	(9)
Actuarial losses	**(13,174)**	-	(991)
Tax on items taken directly to equity	**3,956**	3	300
Net expense recognised directly in equity	**(9,230)**	(6)	(700)
Profit for the financial period	**48,266**	20,230	31,303
Total recognised income and expenses for the period (equity)	**39,036**	20,224	30,603

Notes to the Consolidated Interim Financial Statements

1. Basis of Preparation

Marshalls plc (the "Company") is a company domiciled in the United Kingdom. The Consolidated Interim Financial Statements of the Company for the half year ended 30 June 2005 comprise the Company and its subsidiaries (together referred to as the "Group").

EU law (IAS Regulation EC 1606/2002) requires that the next annual Consolidated Financial Statements of the Company, for the year ending 31 December 2005, be prepared in accordance with International Financial Reporting Standards (IFRSs) adopted for use in the EU ("adopted IFRSs").

The Consolidated Interim Financial Statements have been prepared on the basis of the recognition and measurement requirements of IFRSs in issue that either are endorsed by the EU and effective (or available for early adoption) at 31 December 2005 or are expected to be endorsed and effective (or available for early adoption) at 31 December 2005, the Group's first annual reporting date at which it is required to use adopted IFRSs. Based on these adopted and unadopted IFRSs, the Directors have made assumptions about the accounting policies expected to be applied when the first annual IFRS Financial Statements are prepared for the year ending 31 December 2005. These are set out on the Company's website (www.marshalls.co.uk).

In particular, the Directors have assumed that the following IFRSs issued by the International Accounting Standards Board and IFRIC Interpretations issued by the International Financial Reporting Interpretations Committee will be adopted by the EU in sufficient time that they will be available for use in the annual IFRS Financial Statements for the year ending 31 December 2005:

• IAS 19 Employee Benefits (Revised)

In addition, the adopted IFRSs that will be effective (or available for early adoption) in the annual Financial Statements for the year ending 31 December 2005 are still subject to change and to additional interpretations and therefore cannot be determined with certainty. Accordingly, the accounting policies for that annual period will be determined finally only when the annual Financial Statements are prepared for the year ending 31 December 2005.

The Consolidated Interim Financial Statements do not include all the information required for full annual Financial Statements.

An explanation of how the transition to IFRSs has affected the reported financial position, financial performance and cash flows of the Group is provided in Note 8. This note includes reconciliations of equity and profit for comparative periods reported under UK GAAP to those reported for those periods under IFRSs.

The accounting policies, which as explained above are included on the Company's website, have been applied consistently to all periods presented in these Consolidated Interim Financial Statements from the date of transition on 1 January 2004. They also have been applied in preparing an opening IFRS balance sheet at 1 January 2004 for the purposes of the transition to IFRSs, as required by IFRS 1. The impact of the transition from UK GAAP to IFRSs is explained in Note 8. The accounting policies have been applied consistently throughout the Group for purposes of these Consolidated Interim Financial Statements.

The comparative figures for the financial year ended 31 December 2004 have been restated to comply with adopted IFRSs and are not the Company's statutory accounts for that financial year. Those accounts, which are prepared under UK GAAP, have been reported on by the Company's auditors and delivered to the Registrar of Companies. The report of the auditors was unqualified and did not contain statements under section 237(2) or (3) of the Companies Act 1985.

In respect of the graphs on page 1 which disclose a five year performance record for certain information, the additional disclosures for 2001, 2002 and 2003 have been prepared on the basis of the historic UK GAAP figures adjusted for the following:

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

Notes to the Consolidated Interim Financial Statements (continued)

1. Basis of Preparation (continued)

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

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.

2. Segmental analysis

	Revenue			**Operating profit**		
	Half year ended June		Year ended December	Half year ended June		Year ended December
	2005	2004	2004	**2005**	2004	2004
	£'000	£'000	£'000	**£'000**	£'000	£'000
Continuing operations	**185,202**	172,717	328,343	**27,614**	28,735	46,973
Financial expenses (net)				**(3,423)**	(2,305)	(6,718)
Profit before tax				**24,191**	26,430	40,255

	Half year ended June		Year ended December
	2005	2004	2004
	£'000	£'000	£'000
Geographical destination of revenue:			
United Kingdom	**182,736**	170,813	324,609
Rest of the world	**2,466**	1,904	3,734
	185,202	172,717	328,343

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

3. Assets held for sale and discontinued operations

On 4 January 2005 Marshalls Clay Products Limited (the Clay Products Division) was sold to Hanson PLC for a cash consideration of £65.0 million (including the repayment of all inter-group indebtedness) and a pre-tax gain of £31.5 million was realised. No tax is payable on the gain due to the utilisation of capital losses. The results of this Division have been disclosed under discontinued activities in the Consolidated Interim Income Statement. Towards the end of December 2004 the transaction had become highly probable and consequently the assets and liabilities have been classified as held for sale in the Balance Sheet.

3. Assets held for sale and discontinued operations (continued)

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

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

Post tax profit of discontinued operation:

	Half year ended June		Year ended December
	2005	2004	2004
	£'000	£'000	£'000
Revenue	**-**	17,445	33,966
Net operating costs	**-**	(14,606)	(28,521)
Operating profit	**-**	2,839	5,445
Gain on sale of discontinued operation	**31,517**	-	-
Financing expenses	**-**	(295)	(564)
Profit before tax	**31,517**	2,544	4,881
Income tax expense	**-**	(794)	(1,603)
Gain on sale and post tax profit of discontinued operation	**31,517**	1,750	3,278
Geographical destination of revenue:			
United Kingdom	**-**	17,005	33,102
Rest of the world	**-**	440	864
	-	17,445	33,966

Notes to the Consolidated Interim Financial Statements
(continued)

4. Earnings per share

Basic earnings per share on total operations of 34.01p (30 June 2004: 12.08p) (31 December 2004: 20.18p) is calculated by dividing the profit attributable to ordinary shareholders from total operations of £48,266,000 (30 June 2004: £20,230,000) (31 December 2004: £31,303,000) by the weighted average number of shares in issue during the period of 141,918,011 (30 June 2004: 167,402,546) (31 December 2004: 155,107,622).

Basic earnings per share on continuing operations of 11.80p (30 June 2004: 11.04p) (31 December 2004: 18.07p) is calculated by dividing the profit attributable to ordinary shareholders from continuing operations of £16,749,000 (30 June 2004: £18,480,000) (31 December 2004: £28,025,000) by the weighted average number of shares in issue during the period of 141,918,011 (30 June 2004: 167,402,546) (31 December 2004: 155,107,622).

Basic earnings per share on discontinued operations of 22.21p (30 June 2004: 1.04p) (31 December 2004: 2.11p) is calculated by dividing the profit attributable to ordinary shareholders from discontinued operations of £31,517,000 (30 June 2004: £1,750,000) (31 December 2004: £3,278,000) (see Note 3) by the weighted average number of shares in issue during the period of 141,918,011 (30 June 2004: 167,402,546) (31 December 2004: 155,107,622).

Profit attributable to ordinary shareholders

	Half year ended June		Year ended December
	2005	2004	2004
	£'000	£'000	£'000
Profit attributable to ordinary shareholders			
- Continuing operations	**16,749**	18,480	28,025
- Discontinued operations	**31,517**	1,750	3,278
Total	**48,266**	20,230	31,303

Weighted average number of ordinary shares

	Half year ended June		Year ended December
	2005	2004	2004
	Number	Number	Number
Issued ordinary shares at beginning of period	**141,913,313**	167,346,883	167,346,883
Effect of shares issued in the period	**4,698**	55,663	155,631
Effect of reduction of share capital and shares cancelled in the period	**-**	-	(12,394,892)
Weighted average number of ordinary shares at end of period	**141,918,011**	167,402,546	155,107,622

Diluted earnings per share on total operations of 33.94p (30 June 2004: 12.06p) (31 December 2004: 20.15p) is calculated by dividing the profit attributable to ordinary shares, and potentially dilutive ordinary shares, from total operations of £48,266,000 (30 June 2004: £20,230,000) (31 December 2004: £31,303,000) by the weighted average number of shares in issue during the period of 141,918,011 (30 June 2004: 167,402,546) (31 December 2004: 155,107,622) plus dilutive shares of 303,107 (30 June 2004: 272,383) (31 December 2004: 241,303) which totals 142,221,118 (30 June 2004: 167,674,929) (31 December 2004: 155,348,925).

4. Earnings per share (continued)

Weighted average number of ordinary shares (continued)

Diluted earnings per share on continuing operations of 11.78p (30 June 2004: 11.02p) (31 December 2004: 18.04p) is calculated by dividing profit attributable to ordinary shares and potentially ordinary dilutive shares from continuing operations of £16,749,000 (30 June 2004: £18,480,000) (31 December 2004: £28,025,000) by the weighted average number of shares in issue during the period of 141,918,011 (30 June 2004: 167,402,546) (31 December 2004: 155,107,622), plus dilutive shares of 303,107 (30 June 2004: 272,383) (31 December 2004: 241,303) which totals 142,221,118 (30 June 2004: 167,674,929) (31 December 2004: 155,348,925).

Diluted earnings per share on discontinued operations of 22.16p (30 June 2004: 1.04p) (31 December 2004: 2.11p) is calculated by dividing profit attributable to ordinary shares and potentially ordinary dilutive shares from discontinued operations of £31,517,000 (30 June 2004: £1,750,000) (31 December 2004: £3,278,000) by the weighted average number of shares in issue during the period of 141,918,011 (30 June 2004: 167,402,546) (31 December 2004: 155,107,622), plus dilutive shares of 303,107 (30 June 2004: 272,383) (31 December 2004: 241,303) which totals 142,221,118 (30 June 2004: 167,674,929) (31 December 2004: 155,348,925).

Weighted average number of ordinary shares (diluted)

	Half year ended June		Year ended December
	2005	2004	2004
	£'000	£'000	£'000
Weighted average number of ordinary shares	**141,918,011**	167,402,546	155,107,622
Effect of share options on issue	**303,107**	272,383	241,303
Weighted average number of ordinary shares (diluted)	**142,221,118**	167,674,929	155,348,925

5. Dividends

The following dividends were paid by the Group.

	Half year ended June		Year ended December
	2005	2004	2004
Approved by shareholders in the period:	**£'000**	£'000	£'000
8.00 pence per qualifying ordinary share (30 June 2004: 7.35 pence) (31 December 2004: 11.25 pence)	**11,353**	12,300	17,829

In accordance with International Accounting Standards, the proposed interim dividend of 4.10 pence (30 June 2004: 3.90 pence) per ordinary share has not been accrued in the Financial Statements for the half year ended June 2005.

Notes to the Consolidated Interim Financial Statements (continued)

6. Notes to the cash flow statement

	Half year ended June		Year ended December
	2005	2004	2004
	£'000	£'000	£'000
Cashflows from operating activities			
Operating profit of continuing operations	**27,614**	28,735	46,973
Operating profit of discontinued operation (Note 3)	**-**	2,839	5,445
Operating profit	**27,614**	31,574	52,418
Adjustments for:			
Depreciation	**9,155**	9,390	19,051
Amortisation	**111**	8	55
Loss / (gain) on sale of property, plant & equipment	**4**	(12)	(41)
Equity settled share based payment expenses	**-**	64	128
Loss in hedging instrument	**-**	155	330
Operating profit before changes in working capital and provisions	**36,884**	41,179	71,941
(Increase) in inventories	**(7,995)**	(2,807)	(7,000)
(Increase) in trade and other receivables	**(29,613)**	(35,288)	(3,500)
Increase/(decrease) in trade and other payables	**9,608**	10,613	(3,288)
Increase in provisions and employee benefits	**704**	987	2,328
Cash generated from operations	**9,588**	14,684	60,481
Financial expenses paid	**(2,902)**	(1,669)	(4,589)
Non equity dividends paid	**(76)**	-	(92)
Income tax paid	**(5,055)**	(6,132)	(13,588)
Net cash flow from operating activities	**1,555**	6,883	42,212

6. Notes to the cash flow statement (continued)

	Half year ended June 2005 £'000	Half year ended June 2004 £'000	Year ended December 2004 £'000
Cash flows from investing activities			
Proceeds from sale of plant and equipment	**274**	92	673
Financial income received	**40**	79	105
Disposal of subsidiary, net of cash disposed of	**65,000**	-	-
Acquisition of subsidiaries	**(291)**	(7,586)	(17,968)
Bank balance acquired with subsidiaries	**-**	1,030	2,297
Acquisition of property, plant and equipment	**(10,753)**	(12,021)	(27,218)
Net cash flow from investing activities	**54,270**	(18,406)	(42,111)
Cash flows from financing activities			
Proceeds from issue of share capital	**37**	428	751
Increase in other debt and lease financing	**-**	-	66,779
Redemption of B shares	**(764)**	-	(71,036)
Repayment of borrowings	**(50,126)**	(1,120)	(1,124)
Payment of transaction costs	**(67)**	-	(2,195)
Equity dividends paid	**-**	-	(17,829)
Net cash flow from financing activities	**(50,920)**	(692)	(24,654)

Notes to the Consolidated Interim Financial Statements (continued)

6. Notes to the cash flow statement (continued)

	Half year ended June 2005			Half year ended June 2004		
	Continuing operations	Discontinued operations	Group	Continuing operations	Discontinued operations	Group
	£'000	**£'000**	**£'000**	£'000	£'000	£'000
Net cash flow from operating activities	**1,555**	**-**	**1,555**	1,783	5,100	6,883
Net cash flow from investing activities	**(10,730)**	**65,000**	**54,270**	(18,126)	(280)	(18,406)
Net cash flow from financing activities	**(920)**	**(50,000)**	**(50,920)**	(692)	-	(692)

	Year ended December 2004		
	Continuing operations	Discontinued operations	Group
	£'000	£'000	£'000
Net cash flow from operating activities	34,309	7,903	42,212
Net cash flow from investing activities	(42,976)	865	(42,111)
Net cash flow from financing activities	(24,654)	-	(24,654)

7. Reconciliation of net cash flow to movement in net debt

	Half year ended June		Year ended December
	2005	2004	2004
	£'000	£'000	£'000
Net increase / (decrease) in cash and cash equivalents	**4,905**	(12,215)	(24,553)
Cash outflow / (inflow) from decrease / (increase) in debt and lease financing	**51,027**	1,120	(69,812)
Finance leases acquired on acquisition of subsidiary undertakings	**-**	-	(631)
Movement in net debt in the period	**55,932**	(11,095)	(94,996)
Net debt at the beginning of the period	**(108,239)**	(13,243)	(13,243)
Net debt at the end of the period	**(52,307)**	(24,338)	(108,239)

8. Explanation of transition to IFRSs

As stated in Note 1, these are the Group's first Consolidated Interim Financial Statements for part of the period covered by the first IFRS annual Consolidated Financial Statements prepared in accordance with IFRSs.

The accounting policies have been applied in preparing the Consolidated Interim Financial Statements for the six months ended 30 June 2005, the comparative information for the six months ended 30 June 2004, the Financial Statements for the year ended 31 December 2004 and the preparation of an opening IFRS balance sheet at 1 January 2004 (the Group's date of transition).

In preparing its opening IFRS balance sheet, comparative information for the six months ended 30 June 2004 and Financial Statements for the year ended 31 December 2004, the Group has adjusted amounts reported previously in Financial Statements prepared in accordance with UK GAAP.

An explanation for how the transition from UK GAAP to IFRSs has affected the Group's financial position, financial performance and cash flows is set out in the following tables and the notes that accompany the tables.

Notes on reconciliation of equity

The most significant adjustment relates to employee benefits. Pension liabilities of £45,775,000, £47,820,000 and £50,855,000 at 1 January 2004, 30 June 2004 and 31 December 2004, together with the associated deferred tax adjustments, have been recognised upon adoption of IAS 19 Employee Benefits (Revised). These liabilities were not previously recognised under UK GAAP. Other adjustments include the de-recognition of dividends not declared at the period end which were previously accrued under UK GAAP and, as at 31 December 2004, the disclosure of assets and liabilities of the Clay Products Division classified and measured as held for sale.

Notes on reconciliation of profit

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

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

Notes to the Consolidated Interim Financial Statements (continued)

8. Explanation of transition to IFRSs (continued)

Reconciliation of equity at 1 January 2004 and 30 June 2004

	1 January 2004 UK GAAP	1 January 2004 Effect of transition to IFRSs	1 January 2004 IFRSs	30 June 2004 UK GAAP	30 June 2004 Effect of transition to IFRSs	30 June 2004 IFRSs
	£'000	£'000	£'000	£'000	£'000	£'000
Assets						
Non-current assets						
Property, plant and equipment	206,650	-	206,650	209,999	-	209,999
Intangible fixed assets	23,725	-	23,725	30,246	771	31,017
	230,375	-	230,375	240,245	771	241,016
Current assets						
Inventories	56,744	-	56,744	60,125	-	60,125
Trade and other receivables	33,412	-	33,412	69,426	-	69,426
Cash and cash equivalents	7,884	-	7,884	28	-	28
	98,040	-	98,040	129,579	-	129,579
Total assets	328,415	-	328,415	369,824	771	370,595
Liabilities						
Current liabilities						
Trade and other payables	68,992	(11,380)	57,612	88,612	1,020	89,632
	68,992	(11,380)	57,612	88,612	1,020	89,632
Non-current liabilities						
Loans	20,000	-	20,000	20,000	-	20,000
Employee benefits	-	45,775	45,775	-	47,820	47,820
Deferred tax	21,275	(11,968)	9,307	21,626	(12,626)	9,000
	41,275	33,807	75,082	41,626	35,194	76,820
Total liabilities	110,267	22,427	132,694	130,238	36,214	166,452
Net assets	218,148	(22,427)	195,721	239,586	(35,443)	204,143
Equity						
Capital and reserves attributable to equity holders						
Share capital	41,837	-	41,837	41,886	-	41,886
Share premium account	18,138	-	18,138	18,517	-	18,517
Own shares	-	(1,047)	(1,047)	-	(776)	(776)
Revaluation reserve	5,166	(5,166)	-	5,166	(5,166)	-
Capital redemption reserve	1,483	-	1,483	1,483	-	1,483
Merger reserve	13,091	-	13,091	13,091	-	13,091
Hedging reserve	-	-	-	-	(6)	(6)
Retained earnings	138,433	(16,214)	122,219	159,443	(29,495)	129,948
Equity shareholders' funds	218,148	(22,427)	195,721	239,586	(35,443)	204,143

8. Explanation of transition to IFRSs (continued)

Reconciliation of equity at 31 December 2004

	UK GAAP	Effect of transition to IFRSs Total operations	Discontinued operations	IFRSs
	£'000	£'000	£'000	£'000
Assets				
Non-current assets				
Property, plant and equipment	218,408	-	(27,008)	191,400
Intangible fixed assets	39,063	1,669	-	40,732
	257,471	1,669	(27,008)	232,132
Current assets				
Inventories	66,011	-	(5,510)	60,501
Trade and other receivables	42,407	(1,045)	(3,780)	37,582
Cash and cash equivalents	24	-	(3)	21
Assets classified as held for sale	-	-	36,301	36,301
	108,442	(1,045)	27,008	134,405
Total assets	365,913	624	-	366,537
Liabilities				
Current liabilities				
Trade and other payables	91,316	(10,855)	(5,415)	75,046
Current instalments of loans	229	-	-	229
Liabilities classified as held for sale	-	-	8,531	8,531
	91,545	(10,855)	3,116	83,806
Non-current liabilities				
Trade and other payables	2,000	-	-	2,000
Loans	87,184	4,157	-	91,341
Employee benefits	-	50,855	-	50,855
Deferred tax	23,695	(13,537)	(3,116)	7,042
	112,879	41,475	(3,116)	151,238
Total liabilities	204,424	30,620	-	235,044
Net assets	161,489	(29,996)	-	131,493
Equity				
Share capital	39,635	(4,157)	-	35,478
Share premium account	287	-	-	287
Own shares	-	(655)	-	(655)
Revaluation reserve	5,166	(5,166)	-	-
Capital redemption reserve	71,237	-	-	71,237
Merger reserve	(213,067)	-	-	(213,067)
Hedging reserve	-	(6)	-	(6)
Retained earnings	258,231	(20,012)	-	238,219
Equity shareholders' funds	161,489	(29,996)	-	131,493

Notes to the Consolidated Interim Financial Statements (continued)

8. Explanation of transition to IFRS (continued)

Reconciliation of profit

For the half year ended 30 June 2004

	UK GAAP £'000	Total effect of transition to IFRSs £'000	**Restated IFRSs (Total) £'000**	IFRSs Discontinued operations £'000	**IFRSs Continuing operations £'000**
Revenue	**190,162**	-	**190,162**	(17,445)	**172,717**
Operating costs	**(158,153)**	(435)	**(158,588)**	14,606	**(143,982)**
Operating profit	**32,009**	(435)	**31,574**	(2,839)	**28,735**
Net financing costs	**(1,599)**	(1,001)	**(2,600)**	295	**(2,305)**
Profit before tax	**30,410**	(1,436)	**28,974**	(2,544)	**26,430**
Income tax expense	**(9,400)**	656	**(8,744)**	794	**(7,950)**
Net profit	**21,010**	(780)	**20,230**	(1,750)	**18,480**

For the year ended 31 December 2004

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

Interim Review Report on the first period for which the entity is preparing IFRS financial information

Independent review report by KPMG Audit Plc to Marshalls plc

Introduction

We have been engaged by the Company to review the Financial Information set out on pages 4 to 18 and we have read the other information contained in the Interim Report and considered whether it contains any apparent misstatements or material inconsistencies with the Financial Information.

This Report is made solely to the Company in accordance with the terms of our engagement to assist the Company in meeting the requirements of the Listing Rules of the Financial Services Authority. Our review has been undertaken so that we might state to the Company those matters we are required to state to it in this 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 for our review work, for this Report, or for the conclusions we have reached.

Directors' responsibilities

The Interim Report, including the Financial Information contained therein, is the responsibility of and has been approved by the Directors. The Directors are responsible for preparing the Interim Report in accordance with the Listing Rules which require that the accounting policies and presentation applied to the interim figures should be consistent with those applied in preparing the preceding annual Financial Statements except where any changes, and the reasons for them, are disclosed.

As disclosed in Note 1 to the Financial Information, the next annual Financial Statements of the Group will be prepared in accordance with IFRSs adopted for use in the European Union. This Interim Report has been prepared in accordance the requirements of IFRS 1, First-time Adoption of International Financial Reporting Standards relevant to Interim Reports.

The accounting policies that have been adopted in preparing the Financial Information are consistent with those that the Directors currently intend to use in the next annual Financial Statements. There is however a possibility that the Directors may determine that some changes to these policies are necessary when preparing the full annual Financial Statements for the first time in accordance with those IFRSs adopted for use by the European Union. This is because, as disclosed in Note 1, the Directors have anticipated that certain standards, which have yet to be formally adopted for use by the European Union, will be so adopted in time to be applicable to the next annual Financial Statements.

Review work performed

We conducted our review in accordance with guidance contained in Bulletin 1999/4 Review of interim Financial Information issued by the Auditing Practices Board for use in the United Kingdom. A review consists principally of making enquiries of group management and applying analytical procedures to the Financial Information and underlying financial data and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review is substantially less in scope than an audit performed in accordance with Auditing Standards and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an audit opinion on the Financial Information.

Review conclusion

On the basis of our review we are not aware of any material modifications that should be made to the Financial Information as presented for the half year ended 30 June 2005.

KPMG Audit Plc

Chartered Accountants
9 September 2005

Shareholder Information

Financial calendar

Interim results for the year ended December 2005	Announced	9 September 2005
Interim dividend for the year ended December 2005	Payable	7 December 2005
Results for the year ending December 2005	Announcement	March 2006
Report and accounts for the year ending December 2005		April 2006
Annual General Meeting		May 2006
Final dividend for the year ending December 2005	Payable	July 2006

Registrars and general

All administrative enquiries relating to shareholdings should, in the first instance, be directed to Computershare Investor Services PLC, PO Box 82, The Pavilions, Bridgwater Road, Bristol BD99 7NH, telephone: 0870 702 0000, fax: 0870 703 6116 and clearly state the registered shareholder's name and address.

A copy of this report is being sent to the holders of listed securities of the Company and further copies are available for members of the public on application to the Company Secretary, Marshalls plc, Birkby Grange, Birkby Hall Road, Huddersfield HD2 2YA, telephone: 01484 438900, fax: 01484 438944.

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